

# BUSINESS WEEK

July 22, 1961

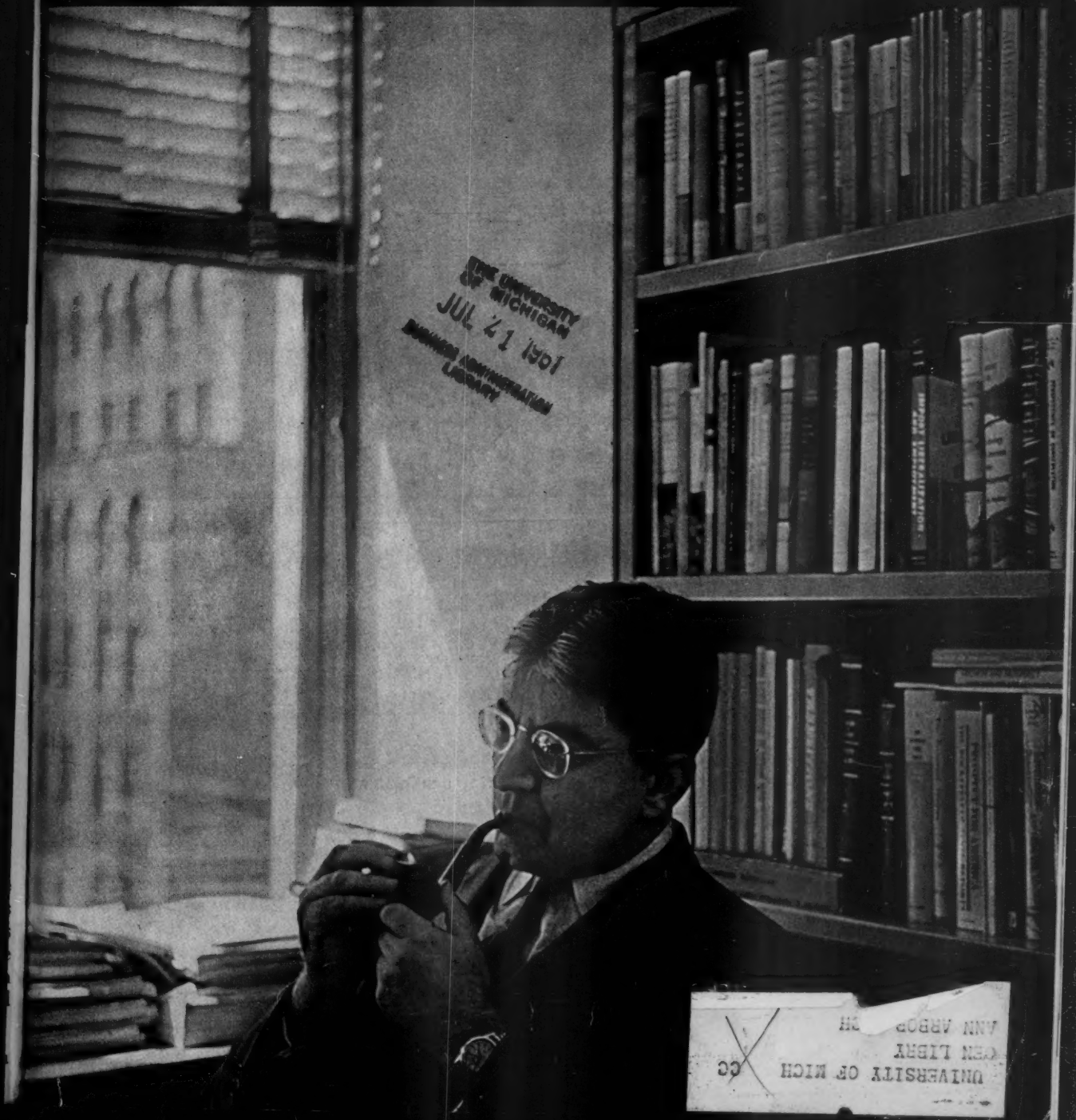
Fifty cents

A McGraw Hill Publication

New ways to size up  
how consumers act

Page 68

Below: Arthur F. Burns of the National Bureau  
of Economic Research—a lifetime of fact-finding  
adds weight to his economic views [Economics]





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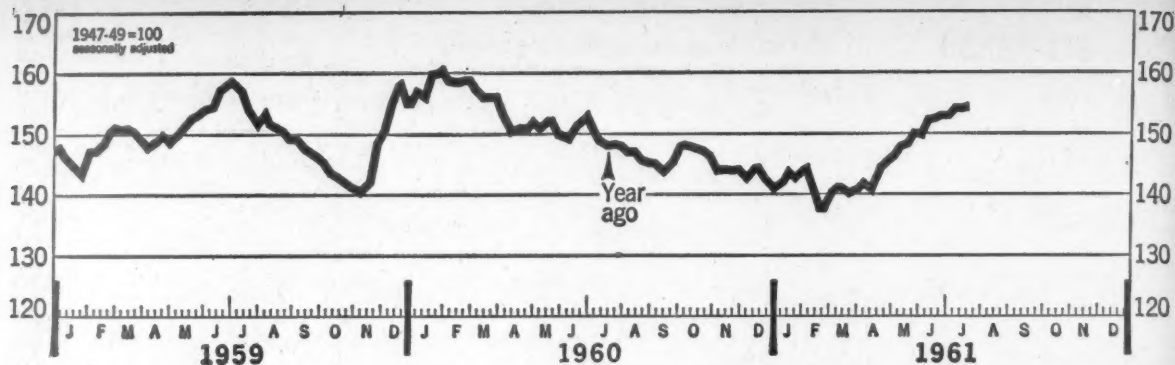
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Number 1664



## Figures of the week



### BUSINESS WEEK index chart

#### Production

	1953-55 average	Year ago	Month ago	Week ago	\$ Latest Week
Steel ingot [thous. of tons].....	2,032	1,476	1,985	1,779r	1,860
Automobiles .....	125,553	105,113	129,274	85,889r	127,415
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]....	\$52,412	\$101,135	\$84,122	\$86,372	\$88,184
Electric power [millions of kilowatt-hours].....	10,819	14,608	15,345	14,133	15,071
Crude oil and condensate [daily av., thous. of bbl.].....	6,536	6,832	7,105	6,970	6,930
Bituminous coal [daily av., thous. of tons].....	1,455	785	1,412	1,750r	765
Paperboard [tons] .....	247,488	248,079	325,848	202,725	245,221

#### Trade

Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars].....	70	61	56	60	59
Carloadings: all others [daily av., thous. of cars].....	47	40	43	37	36
Department store sales index [1947-49=100, not seasonally adjusted]....	121	108	151	125	114
Business failures [Dun & Bradstreet, number].....	198	258	351	220	304

#### Prices

Industrial raw materials, daily index [BLS, 1947-49=100].....	89.2	91.1	89.4	90.5	90.7
Foodstuffs, daily index [BLS, 1947-49=100].....	90.5	78.8	74.9	76.3	75.7
Print cloth [spot and nearby, yd.].....	19.8¢	20.6¢	17.5¢	17.5¢	17.5¢
Finished steel, index [BLS, 1947-49=100].....	143.9	186.2	185.4	185.4	185.4
Scrap steel composite [Iron Age, ton].....	\$36.10	\$31.50	\$37.83	\$36.67	\$36.67
Copper [electrolytic, delivered price, E&MJ, lb.].....	32.39¢	33.00¢	31.00¢	31.00¢	31.00¢
Aluminum, primary pig [U. S. del., E&MJ, lb.].....	20.6¢	26.0¢	26.0¢	26.0¢	26.0¢
Aluminum, secondary alloy #380, 1% zinc [U. S. del., E&MJ, lb.].....	††	24.00¢	21.67¢	NA	NA
Wheat [No. 2, hard and dark hard winter, Kansas City bu.].....	\$2.34	\$1.89	\$1.97	\$1.97	\$1.96
Cotton, daily price [middling, 1 in., 14 designated markets, lb.].....	34.57¢	32.20¢	32.24¢	32.44¢	32.59¢
Wool tops [Boston, lb.].....	\$1.96	\$1.67	\$1.75	\$1.75	\$1.78

#### Finance

500 stocks composite, price index [S&P's, 1941-43=10].....	31.64	55.64	65.15	65.66	64.81
Medium grade corporate bond yield [Baa issue, Moody's].....	3.59%	5.23%	5.03%	5.08%	5.09%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate].....	2-2½%	3¾%	3%	2¾%	2¾%

#### Banking Millions of dollars

Demand deposits adjusted, reporting member banks.....	††	60,473	63,433	61,155	61,892
Total loans and investments, reporting member banks.....	††	106,863	113,807	113,257	112,402
Commercial, industrial and agricultural loans, reporting member banks....	††	32,570	32,667	32,766	32,710
U. S. gov't guaranteed obligations held, reporting member banks.....	††	27,816	33,124	31,974	31,456
Total federal reserve credit outstanding.....		26,424	28,120	28,177	28,568
Gold stock .....		21,879	19,254	17,476	17,550

#### Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Housing starts [in thousands].....	June....	101.5	127.3	130.6	136.9
Personal income [seasonally adjusted, in billions].....	June....	\$296.1	\$404.4	\$413.2	\$416.7
Farm income [seasonally adjusted, in billions].....	June....	\$16.0	\$16.8	\$16.8	\$17.1
Bank debits [in billions].....	June....	\$158.1	\$250.9	\$268.9	\$296.7
Wholesale prices [U. S. Dept. of Labor BLS, 1947-49=100].....	June....	110.4	119.5	118.2	118.2

\* Preliminary, week ended July 15, 1961.

†† Not available. Series revised.

r Revised.

\$ Date for 'Latest Week' on each series on request.  
NA Not available at press time.

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**BUSINESS WEEK July 22, 1961**

## READERS REPORT

### How long is temporary?

Dear Sir:

Your article, "Temporary hiring climbs up the ladder" (BW—Jul. 15'61,p47), accurately portrays a current trend. . . . I think that a practice in the defense industry—temporary hiring for long-term requirements—also deserves attention.

Some large firms with cost-plus contracts deny desirable employment opportunities to engineers and technicians but—through an employment intermediary—use their services on a continuous basis over a period of years. Perhaps the most ludicrous example is the man who, after rejection as a job applicant, formed a one-man agency and promptly negotiated himself into the desired work. . . .

Ordinarily the leased-out employee has virtually no contact with his nominal employer and is an outsider in the firm to which he has been assigned. The defense manufacturer may recognize that a long-term complement of second-class citizens restricts its freedom to encourage teamwork, administer merit reviews, and award promotions. But the requirement to subcontract may pressure the firm into such undesirable arrangements. . . . Public funds are wasted. Money earmarked for defense is diverted into "stiff fees"—commissions on salaries of men who are artificially kept off the defense companies' payrolls.

Harold W. Fox

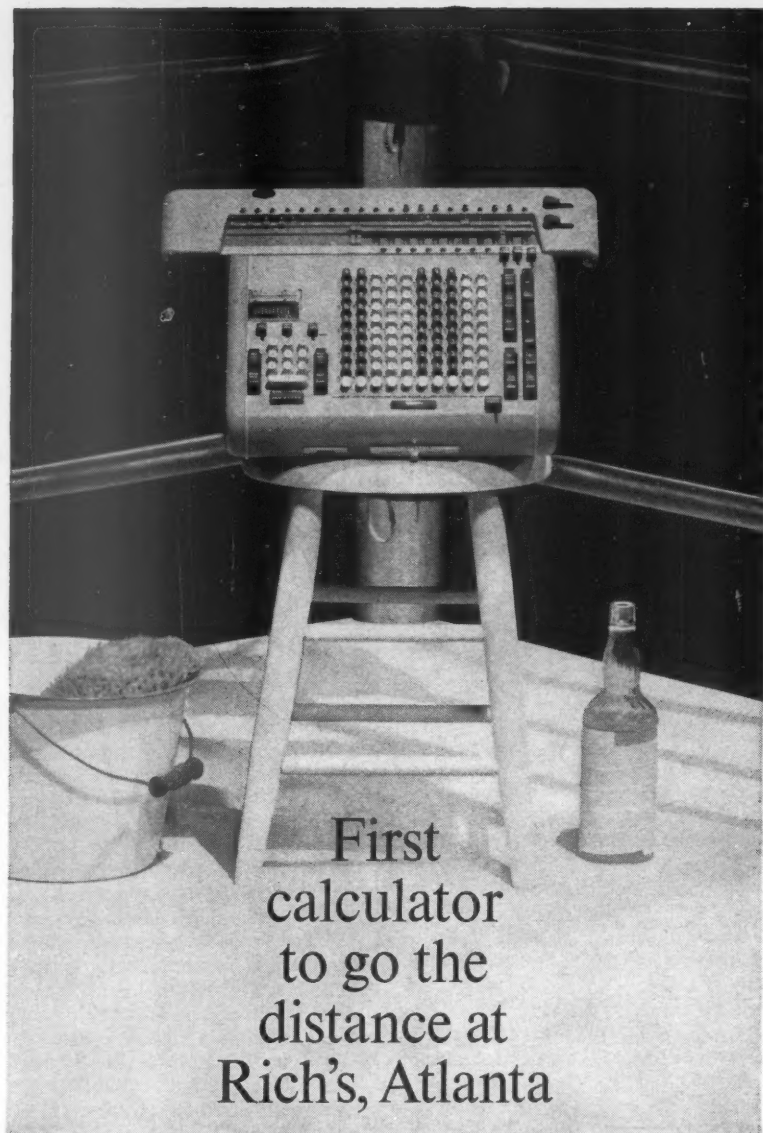
Fairleigh Dickinson University  
Madison, N. J.

### CPAs claim their own

Dear Sir:

In "Eisenhower men find new niches" (BW—Jun.17'61,p107), you indicated Navy Secy. William B. Franke was resuming his law practice in Chicago, and Budget Director Maurice H. Stans was a professional economist.

I happen to be a member of Council, the governing body of the American Institute of Certified Public Accountants. As one of the newer professions, we are keenly aware of the value of good public relations. So—we hate to see a couple of "our boys," of whom we're justly proud, described as something else. Both Bill Franke and Morrie Stans spent their lives as practicing CPAs, before entering



## First calculator to go the distance at Rich's, Atlanta

Like any department store, Rich's gives their calculators a real workout; the machines are in constant use from morning until night.

Rich's bought their first Friden 15 years ago... soon discovered that it took the relentless pounding better than any machine they'd ever used. Today, Rich's has 31 Fridens. And swears by them.

Rugged reliability and simple, logical keyboard operation are features that have made Friden calculators the first choice of Rich's, Atlanta, and many other department stores throughout the country.

Why not see how the Friden—The Thinking Machine Of American Business—can help your operation? Just call your local Friden Man. Or write: Friden, Inc., San Leandro, California.

**THIS IS PRACTIMATION:** automation so hand-in-hand with practicality there can be no other word for it.

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public service. Stans is a past president of AICPA, and both have received high honors as CPAs.

D. L. Alkire

Seattle, Wash.

■ Yes, both Franke and Stans have backgrounds as CPAs.

## Path of least resistance?

Dear Sir:

The article covering the securities probe (BW—Jul. 1 '61, p19) points up some good and valid problems. However, it appears that the emphasis of the SEC is following the politically advantageous path of the least resistance, instead of the great areas of the "no man's land" of the over-the-counter and unlisted securities markets.

Walter Born

Westamerica Securities, Inc.  
Dallas, Tex.

## Nelson Fund and taxes

Dear Sir:

We were very happy to see the interest of Business Week in the Nelson Fund, Inc. (BW—Jun. 17 '61, p144). . . .

Your article states that Nelson Fund "got around paying taxes through a special rule allowing it to accumulate funds in lieu of taxes in a special reserve." This is incorrect. Nelson Fund did not avoid paying any taxes for which it may have been liable. The reserve was simply a bookkeeping entry for the purpose of establishing a provision for estimated possible federal income taxes applicable to unrealized appreciation of investments. That is to say, the reserve was established to cover any possible payment of income taxes which might be due in the event Nelson Fund sold portfolio securities at a profit. Since Nelson Fund can now qualify as a regulated company and, assuming it satisfies certain formal requirements, will not be liable for federal income taxes, such provision is no longer required.

Your article also states that the reserve will be paid out to shareholders as a dividend. . . . Although Nelson Fund will pay out dividends . . . to the extent of realized income and possibly do the same with capital gains, the reserves, as such, will not be paid out as a dividend. . . .

George J. Nelson

Nelson Fund, Inc.  
New York, N. Y.

# Business outlook

**BW**

July 22, 1961

## **Recovery brings production index close to old high**

Industrial recovery is very nearly complete—if you define recovery simply as regaining the ground lost in the recent recession.

Using the Federal Reserve Board's index as a yardstick, production is up to 110 (with the 1957 average equaling 100). That's 8 points above the recession low and only 1 point below the 1960 high.

Such a rise in only three months certainly is swift enough. Now, though, the rate of gain obviously has slackened. So perhaps we are, indeed, passing into a different phase of this new business cycle.

Some slowing down in business now hardly comes as any surprise.

Much has been made of the early changeover to new-model cars. But perhaps not quite enough has been made of the possibility that a strike might delay the start on new-model production.

Steel companies certainly figure that new orders for August are being held up as the auto companies bargain over the new labor contract.

In Detroit, the odds are against a strike—but not strongly enough against to encourage very much advance buying of steel or parts.

## **Nondurable goods set new records**

Industrial production's recovery very nearly to the old peak is impressive; yet, as is natural, not all industries have shared equally in it.

A great part of the thrust has come in the durable goods lines that had suffered the most. Yet softgoods really capture the spotlight; their output in June was able to reach new high ground.

The Federal Reserve's index number for production of nondurables has risen to 117, 6½ points above the low and a point above 1960's best.

Factories producing durable goods have recovered just about exactly two-thirds of the ground lost during the recession. Over all, they are 10% above the low and 5% above the 1957 average but 5% below the peak.

The important field of machinery (which even now provides employment for more than 1.9-million hands) just matches the over-all performance in durable goods, having regained two-thirds of its losses.

For the whole diversified realm of metal fabricating, the comeback is better than that—closer to 80%.

## **Gain of \$1½-billion for durable goods sales in 5 months**

Among the most impressive phases of recovery has been the buildup in value of shipments by manufacturers of durable goods.

These have risen each month since January, reaching \$14.7-billion in June (on a seasonally adjusted basis). The gain has been \$1½-billion.

The June figure was the best in 11 months. But, more than that, it matches any past performances excepting only the bloated months just before and just after the steel strike and a single month in 1957.

New orders for durable goods in June no more than matched the value of shipments (after running ahead for the previous four months).

The Commerce Dept. estimates, in the flash report out this week, that new orders fell about \$200-million from May's \$14.9-billion. Yet the present level, if sustained, will be satisfactory to most manufacturers, for new orders never have held for long higher than they are today.



## Business outlook Continued

Moreover, aggregate new orders have built up moderately so far this year in marked contrast to their decline throughout 1960.

### Personal income scores sharpest rise in 14 months

Personal income took another giant step last month, moving up to a record annual rate of \$416.7-billion, after seasonal allowances. That's a sturdy \$3.5-billion over the May rate—fattest monthly increase in 14 months.

Credit the fast comeback in manufacturing for better than one third of the monthly improvement. Factory payrolls boasted a \$1.3-billion rise over May, lifting the annual rate for this key component to \$88.9-billion.

Happily, manufacturing payrolls have rebounded a lot faster than most observers expected. In only four months they have recovered all of the \$5.4-billion eroded over nine months.

All other components of personal income either equaled the old highs or set new records in June.

The benefits of recovery were enjoyed by the self-employed, as well as the wage earners last month. Business and professional proprietors' income moved up to an annual rate of \$36.4-billion, matching the previous record.

During the recession, proprietors' income fell off at a rate of \$600-million from June, 1960, through February, 1961. Since then it has regained all the lost ground.

### Government pay keeps on rising

Government payrolls, in faithful adherence to Parkinson's Law, expanded by \$3.6-billion over the year-earlier level.

And transfer payments, which include "built-in" stabilizers such as unemployment compensation, posted a \$4.4-billion higher rate of pay-off than in June, 1960.

Come September, the big item in transfer payments—old age and survivors' benefits—is scheduled to start pumping an estimated \$825-million into the income stream at an annual rate. That's when recipients will start getting the raise voted by Congress earlier this year.

In view of the continued vigor of the upturn in personal income, it's a safe bet that consumer spending will shake off its hesitancy and head for new high ground as the year goes along.

Americans have been earning more and saving more in recent months than ever before. Sooner or later, something's got to give.

### Housing starts up again in June

Don't look now, but it appears that housing starts might be showing signs of a trend—and a quite encouraging trend.

June has added another convincing gain to the one reported for May.

Moreover the seasonally adjusted annual rate in June, 1,374,000, was the highest in 16 months. The gain over the same month last year amounted to some 70,000 dwelling units, while the rise from last December's abysmal low comes to virtually 400,000.

Once earlier this year a trend seemed to be starting, from January through March. But then April's inexplicable slump scrambled things.

Now, if coming months can hold around the June level or advance a little, the half year's showing at least will be quite respectable. In fact, it should top 1960's weak second half by 17% to 20%.

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**'This Administration is anti-business whether Pres. Kennedy realizes it or not.'**

Financial executive

**'Basically the Administration is not anti-business; it's just anti-knowledgeable.'**

Oil company president

**'It is unfortunate that our system permits a form of on-the-job training for the Office of President, but this is a weakness of the system itself and certainly not of the individuals.'**

Merchandise executive

**'We must fall behind the Administration in view of the world crisis, and stop this barrage of criticism. But I don't mean to be all-inclusive, of course... Now, take taxes...'**

Financial executive

**'I think Kennedy is extremely well motivated, with tremendous innate ability. He does lack experience and it's not surprising he has stumbled.'**

Edwin A. Locke, Jr., president, Union Tank Car Co.

**'It appears to me the Administration doesn't trust the business community... and believe me, that's a two-way street.'**

H. Thomas Hallowell, Jr., president, Standard Pressed Steel Co.

# Business parts with Kennedy

**Businessmen, losing post-election hopes for new Administration, see it now hostile to business; they put blame not on Kennedy but on group of his aides**

**U. S. businessmen** have about decided the Kennedy Administration is going to be detrimental to business—whether by design or default.

This widely held suspicion emerged clearly this week from a Business Week survey of executives across the nation. It contrasts with most businessmen's post-election hopes that the New Frontier would, even at worst, bring no real harm to business (BW—Nov. 19'60, p. 42).

Despite some qualms about labor influence, businessmen generally greeted Kennedy's election with a surprising cheerfulness, almost a feeling of warmth. In the weeks after Inauguration Day, there was praise for the way Kennedy took hold of office, but relations began to cool as the unfolding of the Kennedy program stirred business worries (BW—Feb. 18'61, p. 27). Now that cooling

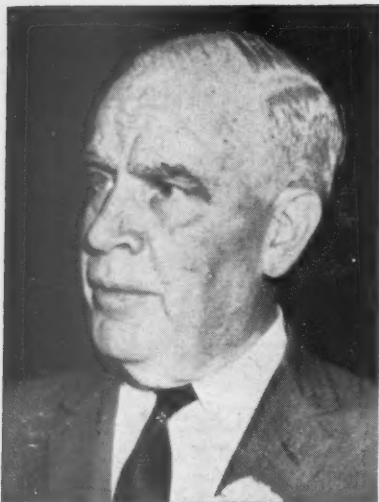
off is rapidly reaching the stage of positive estrangement between business and the Administration.

**Up to no good.** The business view is not all black or white, of course. Concern ranges from deep distrust to a vague uneasiness, and even a handful of strongly pro-Kennedy voices are to be heard. But the consensus of a large body of business opinion is that Washington is up to no good in its relations with the business community. These businessmen are split right down the middle on the reasons for this: dedicated hostility, or well-intended befuddlement.

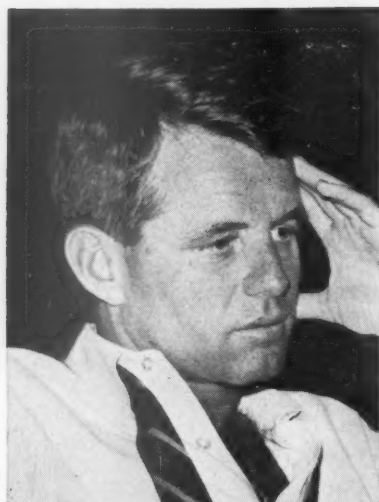
The vast majority of these skeptical businessmen do not believe Pres. Kennedy himself condones an anti-business policy. Instead, they shift the blame to certain Cabinet members and aides. "He is so pre-

occupied with international problems," reasons one executive, "that he's leaving domestic policy up to the boys." One recent visitor to the White House suggests the President does not know his own mind on domestic economic matters. This man says: "You can't pin the fellow down as to his own views. He won't even look you in the eye."

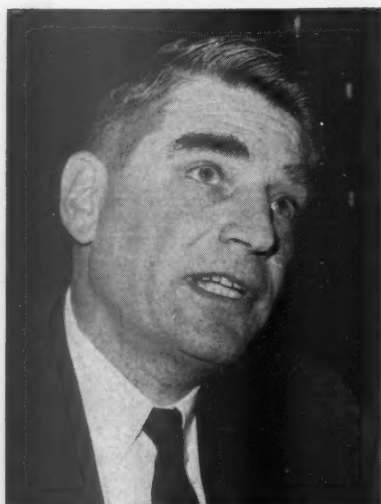
**Targets.** Men around the president are targets of some sharp criticism. Executives who have been close to the Washington scene brand these men as openly hostile to business: Atty. Gen. Robert F. Kennedy, Federal Trade Commission Chmn. Paul Rand Dixon, the Council of Economic Advisers headed by Walter W. Heller, Assistant Treasury Secy. Stanley S. Surrey, Under Secy. of Commerce Edward Gudemán, and even—rather surprisingly—Secy.



Commerce Secy. Luther H. Hodges is under fire from business.



Atty. Gen. Robert F. Kennedy is attacked as persecutor, not prosecutor.



Asst. Treasury Secy. Stanley S. Surrey gets blame for tax bill business opposes.

of Commerce Luther H. Hodges.

Opinions differ sharply on some of these men, as each businessman has his own ogres. And perhaps the sharpest differences center on Hodges. Businessmen took the appointment of this former governor and textile executive as a reassurance of Kennedy's pro-business intentions—and many still feel that way about him. But some say of Hodges that they "never encountered such hostility to business, even under the Truman Administration."

**Lack of knowledge.** Many businessmen feel Kennedy's advisers are guilty of premeditated hostility. "Everything they think and do is calculated to put business in a harness," says one Midwestern executive. Others see something more insidious: Some of the President's closest advisers, this thinking goes, sincerely believe they know better than businessmen what is best for business. As one New York executive sums it up: "Their theories are based on a loss of faith in the free enterprise system, and in honestly following these theories, they tend to interfere with business."

A large number of businessmen are willing to give the Administration the benefit of the doubt on motives. They feel that proposals harmful to business result from a lack of knowledge about business operations and about its role in the economy, and a lack of experience in government.

Worse still, in the view of many executives, men in the Administration fail to realize their lack of knowledge and experience. A bank executive quips, "They have lots of energy and enthusiasm but nothing to go with it; they are all Peace Corps types out on the New Frontier."

**Room for hope.** This view leaves some room for hope among many. "I don't take too dim a view," comments a drug company executive; "I think they will get some maturity as they go along."

The big hope of businessmen is that they will be given ample opportunity to explain their case. Some executives even feel business has not been trying hard enough. "We have to do a better job of illuminating and persuading in Washington," warns a capital goods producer.

**Danger, too.** A key question right now, however, is whether Washington is willing to listen. The recent "disaffiliation" of the nearly 30-year-old Business Advisory Council from the Commerce Dept. (BW—Jul.15 '61,p33) suggests to many businessmen that the Administration does not

want the advice and counsel of business. The danger many executives see is that Washington will isolate itself from business and develop detrimental legislative proposals in a vacuum. In all fairness, some add, labor feels it is also being ignored in government councils.

Many businessmen, in and out of the old BAC, however, insist Washington is still eager for advice from the business community. Businessmen are now being consulted on such problems as management of the foreign aid program and reorganization of the Maritime Commission, they point out. Typical of this view: "As far as I can see the Administration wants business to help in the job of running the government and economy. There's a frank and open desire for assistance and advice from business."

**Relying on Congress.** Another hope of most businessmen is Congress. While they are annoyed by Sen. Estes Kefauver (D-Tenn.) and others, they rely on conservative senators and representatives to withstand the onslaught of "experimental" proposals.

A New York financial executive expresses the typical view: "We still have enough good citizens in the Congress to prevent some of these fallacious ideas from becoming law."

**Impact.** Business uneasiness is having its effects on the decisions of some businessmen. A considerable number report they are holding back on foreign investments until the proposal on taxation of foreign earnings is decided. There are isolated cases, too, of executives postponing domestic capital expenditures, simply because of uncertainty. A handful of Midwestern capital goods executives predict that third and fourth-quarter capital spending will be less than expected, for this reason. Most executives interviewed by Business Week, however, declare they are moving ahead with spending plans.

A number of New York financial executives believe the short-term effects of some Kennedy spending is already being felt in the business recovery. But investment bankers in the South and Midwest report a new trend that may be a sign of the times: a general shifting of portfolios into securities that may benefit from inflation.

**Sources of uneasiness.** When it comes to the target of complaints, business fire is directed at parts of just about every Administration proposal so far. A few businessmen may reject all Kennedy ideas in blanket fashion, but most are more specific.

Perhaps the area of greatest ac-



cord that Business Week reporters found among businessmen is on the question of deficit spending. The current budget deficit may run between \$3-billion and \$5-billion, perhaps more if defense spending is hiked further. Few, indeed, dispute defense spending proposals.

It's the welfare spending plans that most executives—some admittedly pro-Kennedy—sharply berate. "You cannot pile increased welfare programs on top of increased defense spending," comments a transportation executive; "this is compounding the felony, and the long-term result can only be inflation or higher taxes."

Kennedy supporter Edwin A. Locke, Jr., president of Union Tank Car Co., says he's never really comfortable when a government spends more than it takes in: "But I don't think Kennedy is really comfortable, either." Some are quick to point out that big spending is not new. Chmn. Walter Harnischfeger of Harnischfeger Corp. complains, "Whether it's a Democratic or Republican administration, we can't continue to raise our budget \$10-billion a year without trouble."

**Taxes and antitrust.** Another broad target for criticism is taxes (page 30)—including Administration proposals on taxing foreign profits (BW—Apr.29'61,p121), on tax credits for investment in new plant and equipment (BW—Jun.10'61,p30), and on dividend credits and expense accounts. Businessmen see these hurting the competitive position of U.S. business abroad, and penalizing the small investor.

Justice Dept. antitrust activity is also causing concern—though a surprising number of executives feel it's no worse than under Eisenhower. The basic complaint against Robert Kennedy, however, is not the amount of prosecuting he is doing, but his attitude toward business. "We are all being painted in the public eye as bad," laments a food company president. A usually restrained New York financial executive adds, "It appears prosecution is about to become persecution."

Some other proposals and trends singled out by businessmen are: Sen. Kefauver's proposal for three-year instead of 17-year patents on drugs, FTC Chmn. Dixon's attack on allegedly deceptive advertising practices, and the whole move toward public power (BW—Jul.8'61,p32).

But more than any specific complaints businessmen talking to Business Week reporters expressed over and over the same concern: "The Administration is apt to kill the golden goose, whether it intends to or not."

# New Canadian election looms as Coyne quits

Government role in ousting of bank governor stirs up a furor that will be settled at the polls this fall—where Diefenbaker party will face a new challenger

In a new period of political turbulence following the resignation last week of James E. Coyne (picture) as Governor of the Bank of Canada, Canadians began to gird for an early general election. Seasoned Ottawa observers expect Progressive Conservative Prime Minister John G. Diefenbaker to call the election in late October or early November. In that election, there will be a new nationalistic, leftwing party—called the New Party—contending for national leadership against the Conservatives and Liberals.

Because Canada's economy is so closely tied to that of the U.S., the outcome will be watched closely by U.S. businessmen.

**Election goals.** The Diefenbaker government will seek vindication at the polls for its role in the Coyne affair. Last week, Coyne sought and got a clean bill of health from Canada's Senate for his personal integrity in the conduct of the bank's affairs. Coyne then resigned as head of the Dominion's central bank. The government has been under sharp political attack for its "messy" handling of its relations with the bank.

The Diefenbaker government will also seek a clearer mandate to go ahead with the economic program adopted in its June budget for fiscal 1962—cheap money, a huge budget deficit, and a Canadian dollar selling at a substantial discount from that of the U.S. (BW—Jun.24'61,p41).

**New timetable.** Up to last week, few sophisticated Canadian political observers expected Diefenbaker to go to the people before next spring. They felt that he wouldn't want to risk a general election before the economic revival, now under way in Canada (BW—Jun.3'61,p24), had a chance to clear up more of the country's unemployment. Diefenbaker, whose government recently has been losing ground in public opinion polls, was expected to wait for the dust of the Coyne dispute to settle, and for



James E. Coyne, governor of the Bank of Canada, bows out under political fire.

his government's new economic policies to take hold.

The timetable changed last week when the Senate handed Diefenbaker two related issues on which the Prime Minister apparently feels he can win a general election.

**Coyne issue.** One of these issues is a direct result of the Coyne dispute. Finance Minister Donald M. Fleming opened the government's attempt to get rid of Coyne by asking the governor for his resignation. Coyne at first refused, arguing that the government's grounds for such a request impugned his personal integrity. Then the Conservatives introduced a bill to oust him. This easily passed the House of Commons, where the Conservatives hold an overwhelming majority. Last week, however, the bill ran into trouble in the Senate. Coyne told the Committee on Banking & Commerce that if the Senate would uphold his personal honor by defeating the bill, he would resign. The Senate's Liberal majority acceded, and

Coyne submitted his resignation.

**More communication.** The effect of the Senate's action was to give Diefenbaker a constitutional issue on which to fight an election. Traditionally the Senate—an appointive body rather than one elected by the public—acts as a rubber stamp for legislation passed by the House of Commons. Its refusal to go along with the bill to oust Coyne will allow Diefenbaker to argue that constitutional curbs upon the power of the Senate are needed.

As a further argument, Diefenbaker will cite the Senate's refusal to pass a tariff bill—proposed in Canada's emergency budget last December (BW—Jan. 7'61, p52)—giving the Minister of National Revenue the "arbitrary and final right" to raise tariffs on goods of a "class or kind" made in Canada. In its original action on this bill, the Senate passed a series of amendments watering down the powers given the government to alter tariff rates. When the Commons refused to accept the amendments, the Senate refused to pass the legislation.

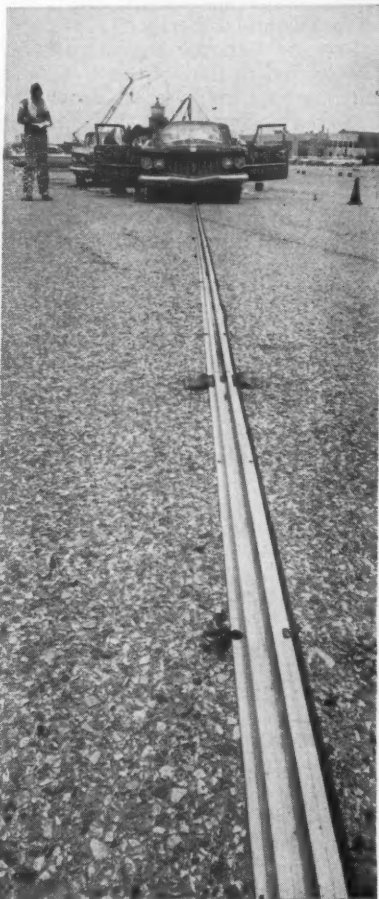
**New Party factor.** In addition to these issues handed him by the Senate, Diefenbaker's decision to hold an early election has been prompted, some observers say, by signs that the New Party is gaining and will be stronger next year than it will be this fall. The New Party, which will hold its first convention late this month, was created through a concordat between Canada's old socialist party, the Commonwealth Co-operative Federation (CCF) and the Canadian Labour Congress, the equivalent of the AFL-CIO.

Diefenbaker is reported to be worrying that the New Party will be far stronger than the old CCF. His reasons: The party will get its financial support from a direct levy on Canada's union members, and it probably will be led by Thomas C. Douglas, a proven vote-getter, who is now CCF Premier of Saskatchewan. Many Canadian political observers feel that Douglas will be able to form an effective coalition between Western farmers, hard-hit by a severe drought this summer, and the workers in Eastern industrial centers, plagued by unemployment.

Others feel, however, that the effect of the New Party will be to ease Diefenbaker's election job by taking votes from the Liberal Party. Both the New Party and the Liberals are to the left of the majority of Diefenbaker's Progressive Conservatives. However, there is a significant minority in Diefenbaker's party that might be split off by the New Party's nationalist appeal.



Technician checks instruments in dummy in preparation for experimental collision conducted by UCLA experts.



Test cars, mounted on monorails, are pulled by cables until they near crash site. Then they are rammed together.

## Prolonging lives of motorists

That's purpose of test crashes conducted by UCLA's traffic engineering institute

The auto collision pictured above might have occurred at any busy intersection during rush hour. But it didn't. Instead, it was a deliberately planned accident, with anthropometric dummies and mannequins in the seats.

Experimental collisions such as this one are planned by the University of California's Institute of Transportation & Traffic Engineering and are executed at Reeves Field, U.S. naval station in Long Beach, Calif.

**Purpose.** The institute believes that it would be impossible to prevent all auto accidents. So it puts its main emphasis on finding out how to reduce the number of deaths and injuries resulting from them. The institute recently received a grant of \$650,000 from the U. S. Pub-



lic Health Service to help support its work.

To get the most data out of its crashes, the institute equips its test cars with a multitude of sophisticated, sensitive instruments to record in minute detail exactly what occurs during the crash. These instruments not only provide motion pictures of the collision from many different angles, but also detail the magnitude and direction of forces placed on the "occupants" of the car and on the auto itself.

Cost of each experiment ranges from \$5,000 to \$10,000, including evaluation of the data and preparation of a report but not the cars donated by the auto industry.

**Suggestions.** As a result of its studies, the traffic institute has a long list of improvements it would like to see manufacturers build into their cars. Some of them have been suggested in the past by the institute as well as other groups:

- Installation of seat belts.
- A dashboard covered with a true energy-dissipating material.
- Padded, large-surfaced steering wheel on a collapsible column.
- A front seat high enough to support passengers' heads, or head rests for front-seat riders.

Of course, most of these improvements will have to come from Detroit. But the institute thinks it sees a few breakthroughs. American Motors' has added head rests on front seats. And New York now requires anchors for seat belts on all new cars sold in the state. Detroit will install either the fixtures or holes for fixtures in all 1962 models.

**Crash**, a side collision, involves two cars traveling at 30 mph. Other cars follow with recording devices connected by cable to instruments in crash cars.

**Impact** of crash on "victims" is measured by instruments mounted on them. Camera in the "driver's" head gives fantastic close-up of crash as it takes place.





# Tax plan clears first hurdle

**Ways & Means Committee gives tentative approval to modified version of Administration tax credit scheme**

**The revised plan would offer credits of a flat 8% to companies on the purchase of machinery or equipment**

**It also takes a few teeth out of revenue raising proposals on dividend withholding, expense account deductions**

The Administration's proposed tax reform program passed a major test this week when the House Ways & Means Committee gave tentative approval to a greatly modified version of the tax credit to stimulate business modernization of its productive facilities.

What the committee has approved—with Treasury consent—is a flat 8% tax credit to be taken on purchase of machinery and equipment only, not on spending for business structures, effective for 1961.

The scheme submitted by Kennedy would have given tax cuts to companies on a percentage that varied depending on how their spending compared with the depreciation allowances on their books.

The amount of the benefit to taxpayers and revenue loss to the Treasury of the committee's new version is about \$1.1-billion per year, compared to the \$1.7-billion under the original Administration version.

**Legislative action.** The committee's actions have given a new shot of hope to those who want the tax package sent to the White House before Congress goes home. At mid-week the committee hadn't yet decided what it wants to do about tax havens. But after this is done, the technicians go to work on the difficult job of translating the committee's decisions into precise language. Along about mid-August the committee will take final votes on the parts of the package and the bill as a whole.

There's one big hurdle, however. Secy. of Treasury Dillon has promised that Kennedy will veto a bill that costs too much—and there's little question that the revenue raising measures now in the package fall far short of making up the \$1.1-billion loss in tax credit. But top Treasury sources indicate that a revenue

loss of \$400-million or \$500-million might finally be acceptable, although they'd like less of a gap.

The House will quickly pass the committee's version of the bill if it gets a chance—and it now appears that Senate consideration may be expedited.

Senate Finance Committee Chmn. Harry Byrd (D-Va.) says he's ready to hold quick hearings—which probably can be done if the final House bill doesn't require a lot of technical reworking. Senate hearings might be extended if the country's tax lawyers discover enough bugs in the language—provisions that put a tax bite on taxpayers that the committee didn't intend.

One factor is helping things along: Business spokesmen who fought the Administration proposals are much more disposed to accept the committee version of the bill. They are for the revised tax credit, and the revenue-raisers are nothing like the rough assortment that Kennedy proposed.

**Provisions.** The Ways & Means Committee is publicizing its tentative decisions made in closed session in order to give taxpayers a chance to react before a final committee vote is taken sometime next month. Here are the major provisions of the tax credit as put together by the committee:

- As the Treasury proposed, the credit can be taken only on equipment having a life of six years or more.

- The maximum allowable credit permitted is 50% of the tax otherwise owed; the Administration originally asked for a 30% ceiling.

- As an added benefit to small business, this 50% limitation would not apply to the first \$100,000 of tax liability. Thus, the maximum credit that could be taken against a tax

liability of \$150,000 would be \$125,000.

- Purchase of used or second-hand machinery and equipment up to a value of \$50,000 would qualify for credit; the Administration originally opposed any credit for other-than-new equipment.

- Public utilities would not be eligible for the credit, with the exception of natural gas pipelines.

**Physical plant.** The elimination of the cost of physical plant from the tax credit benefit resulted mostly from the fact that the committee had earlier rejected an Administration proposal that would have removed real estate tax benefits that the Administration feels are now excessive. Having in effect favored the industry by opposing the Administration on this count, the committee decided not to add to the real estate tax benefits by giving the new tax credit.

Another reason is that elimination of brick and mortar puts the emphasis on modernization of U. S. productive capacity, and thus tends to weaken the arguments of critics who oppose giving plant expansion a break at a time when there is so much unused capacity.

Another factor in the committee's decision is that limiting benefits to machinery and equipment purchases reduces the Treasury tax loss—and thus makes it more possible to frame revenue raising measures to offset this.

**Withholding dividends.** The committee decided in favor of the Administration on withholding on dividends and interest payments. But it adopted a rate of 16-2/3%, instead of the Administration's recommended 20%.

While the precise system is yet to be spelled out, it would work like this for corporations, banks, insurance companies, and the like. A company paying out \$100,000 in dividends would send \$16,666 of its dividend funds to the Internal Revenue Service, then simply deduct 16-2/3% from the amount due each stockholder. Thus, a stockholder entitled to \$600 in dividends would get \$500, while \$100 would go to the government.

Since the stockholder would not be told the exact amount withheld, he would have to figure this out himself when making out his tax return. He would do this by dividing his dividend check (\$500) by five. His total dividend income would thus be the amount withheld plus the amount on the check (\$100 plus \$500, or \$600). After determining how much tax he owes, he would deduct as already paid the amount withheld by the company.

**No individual records.** This is similar to the system used for withholding on wages and salaries, with one important exception: The company or bank does not have to inform the individual recipients or keep any accounts of specific amounts paid directly to the government on their behalf, as it does with wages and salaries. Banks, corporations, and others would make their payments to the government in a single check at the end of each quarter.

Individuals who expect they will owe no tax can file an exemption certificate with the company or other source of income; coupon bond holders would have a special quick refund procedure. Tax-exempt organizations receiving dividends or interest can apply for quarterly refunds, or deduct these amounts from the sums they must send IRS to cover withheld employees' wages.

This new withholding law would be effective next Jan. 1, and the official estimate is that it would add some \$537-million to tax revenues.

**Expense accounts.** On expense accounts, the committee adopted what the experts had figured from the outset—a stand against flagrant cases of deducting costs of entertainment or entertainment facilities (yachts, lodges, and the like) as a business expense.

The committee didn't flatly ban these costs as deductions, but said it wants to block all deductions claimed for the creation of "good will." To get by, the taxpayer must establish that the expense was directly related to the production of income.

Also the rule that allows a taxpayer to estimate his travel and entertainment expenses without having any records on hand to back up his figures would be ended. Under the Ways & Means tentative decision, taxpayers would be required to keep adequate records showing the time and place of the travel, entertainment, or recreation, its business purpose or the business relationship of the taxpayer to the persons entertained.

**Specific rules.** On other expense

account issues, the Ways & Means Committee was much easier than Kennedy asked. The committee would:

- Permit a "reasonable allowance" for food and beverages under conditions "conducive to a business discussion."

- Permit deduction of cost of goods or services for entertainment of employees, or of the general public.

- Disallow deductions for social

or sporting club dues and fees, as the Administration sought.

- Disallow cost of business gifts of more than \$25 per recipient per year.

- Approve a "reasonable allowance" for meals and lodgings while traveling on business; present law permits deduction of the entire amount of food, lodging, etc., while traveling. The committee rejected all suggestions of fixing a maximum of, say, \$25 or \$30 per day.

## Tax exemption in peril for S&L's mutuals

Now the Treasury joins in calling for same tax on S&Ls and mutual savings banks as on commercial banks. Idea is opposed by those who fear a cutback in housing funds

**The Treasury Dept.** this week lined up with the commercial banking industry in proposing elimination of the tax exemption that savings and loan associations and mutual savings banks now enjoy. It recommended a formula that could boost taxes as high as \$550-million for S&Ls and mutuals by 1966.

The move to tax thrift institutions still faces hardshell opposition from a well-financed and well-organized real estate lobby, which feels that a boost in taxes might seriously impair the flow of credit into housing. Real estate people reason that it might force S&Ls and mutuals to cut their dividend rates; this could lower their intake of savings, thus shrink the funds available for investment in housing.

**No quick action.** Even the Treasury proposal, which aims at equality in taxation, is hedged by a statement that "housing considerations" might make it desirable to continue some preferential tax treatment for the thrift institutions.

The fight over tax equality is still in the skirmishing stage. In any event, Washington observers say the House Ways & Means Committee is unlikely even to hold hearings on the subject this year, so there's no chance for legislation before 1962.

**Old argument.** Outright tax exemption for S&Ls and mutuals was repealed in 1951. As part of a compromise settlement, the present tax formula was substituted. This al-

lows S&Ls and mutuals to accumulate tax-free "loss reserves" up to 12% of deposits or share accounts. The present tax formula produces a loss reserve that's equal to 24% of uninsured mortgages held by S&Ls; the Treasury proposal would cut this to 3%.

Because the S&Ls and mutuals have attracted funds so rapidly, deposits and share accounts have simply risen faster than reserves. So they have in effect been able to continue their tax exemption. In 1958 the S&Ls—on net operating income of about \$2-billion—paid federal income tax of only \$7.3-million. Keeping taxes so low has, in turn, helped the S&Ls and mutuals to maintain high dividend rates to attract still more savings.

This is the nub of the fight: Commercial banks, by Federal Reserve regulation, can pay no more than 3%. They say S&Ls and mutuals have an "unfair" tax advantage in the competition for savings, which has enabled them to invade traditional commercial banking markets. In contrast to the 3% bank rate, most big S&Ls pay 4½% for savings, and most mutual savings banks offer at least 3½%.

On the other side, Samuel W. Hawley, president of the National Assn. of Mutual Savings Banks, predicts "a sharp reduction in housing construction and real estate credit" if increased taxes force the mutuals to lower their dividend rates.

# 'Truth in lending' bill argued

**Sen. Douglas' proposal could be a control on consumer credit by an indirect method**

Senators this week started debating a controversial piece of legislation which, if it becomes law, will worm its way into thousands of business transactions every day. It is the "full disclosure" or "truth in lending" bill introduced by Sen. Paul H. Douglas (D-Ill.).

Here is what the Douglas measure would do: A customer buys a television set on time. Before the deal is completed, the dealer would write down for the customer the delivered price of the TV set, the amount of the downpayment, the difference between these two figures, any itemized charges not connected to credit, the total amount to be financed, the finance charge, and the percentage of this charge "expressed as a simple annual rate on the outstanding unpaid balance."

A customer who was not supplied with complete information could sue the merchant for twice the credit charge or \$100, whichever is larger, plus attorney and court costs. And anybody who "willfully" violates the law would be subject to a \$5,000 fine, plus a year in jail. The law would apply to all regular lending from small loans to home mortgages.

**Purpose of bill.** Sen. Douglas, an economist by profession, believes that excessive use of consumer credit tends to act as an unstabilizing force on the economy. He feels that if consumers were fully aware of how much loans or time purchases cost, they would hesitate to make excessive expenditures. So a mere statement of complex interest costs would tend to act as an economic stabilizer.

Sen. Wallace F. Bennett (R-Utah), a member of Douglas' subcommittee, challenges both the practicality of the bill and its theory.

Particularly troublesome to Sen. Bennett is the difficulty in computing the "simple annual interest" rate.

The Savings Banks Assn. of New York State presented to the Banking & Currency subcommittee a device it calls the "quick credit cost computer," a cardboard slide rule that would allow customers to figure out approximate interest rates. (The Savings Banks are for the bill, maintaining that consumers come out ahead by saving money to buy things rather than buying on time.)

Sen. Bennett asked the banners to use their computer and give him the simple interest on a \$300 loan on which 24 monthly payments were to be made. About 8%, they replied. The actual rate was 10%, said Bennett, who had figured it in advance. So the computer was off by 2%. What good, he asked, would this do consumers? The whole matter of computing the rate is too complex to be practical, he maintains.

**Administration support.** The Administration has come through with strong support for the measure. Dr. James Tobin, a member of the Council of Economic Advisers and former economics professor at Yale University, said: "I feel that the contribution of this bill to economic stabilization lies in making credit buying more timely, not in whatever small effect it may have on the average level of consumer credit."

During boom times, he continued, a family may not have trouble meeting its debt, but in a recession, the debt may become burdensome. Multiply this by thousands of families and the effect may be an exaggerated depression of consumer demand at a time when the economy needs a boost. Dr. Tobin said credit is a "natural counter-cyclical influence," and the bill should increase its efficiency.

"In times of boom, rises in finance charges will be more evident to borrowers, while in periods of relative recession, borrowers will be made aware of the more favorable terms on which credit is then available," he said.

This suggests an Administration view that the great mass of consumer credit, now outside the purview of federal regulatory agencies, could by the Douglas bill be brought more in accord with the Federal Reserve Board's general policies without initiating unpopular direct controls of the Regulation W type.

Federal Reserve Chmn. William McC. Martin, Jr., told senators he agreed with the objectives of the measure. However, the bill makes the Fed responsible for enforcing the bill, and Martin said he thought this job should fall elsewhere. The Federal Trade Commission, he implied, might be a good place.

# Manhattan greets new hotel

**The 800-room Summit is New York's first since the Waldorf-Astoria**

Among all the new buildings constructed in New York's postwar boom, one thing has been missing—a hotel. This lack is about to be remedied with the 800-room Summit—now getting its final sprucing up (pictures)—the city's first all-new hotel since the Waldorf-Astoria went up 30 years ago.

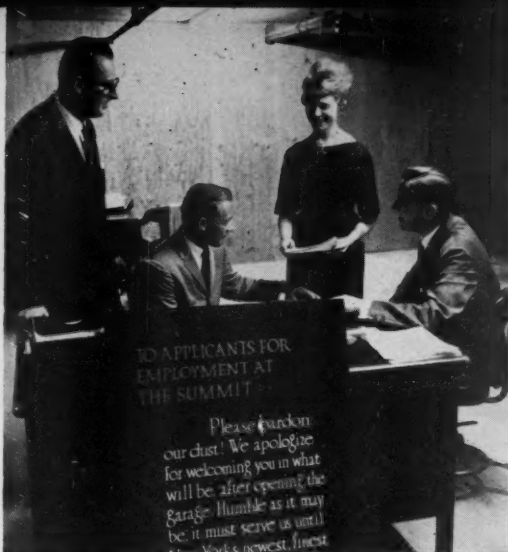
The Summit's opening July 31 on Lexington Avenue at 51st Street, once the site of a Loew's movie theater, will be hailed with all the fuss its builder—Loew's Hotels, Inc.—and a \$100,000 public relations budget can muster. Invitations to the giant-sized opening day festivities went to a long list of international names, and 1,200 representatives of newspapers, radio, television, and magazines. Later in the week, Loew's will entertain over 1,000 representatives of companies the Summit will deal with, and 500 members of the foreign press covering the United Nations.

This may seem a great deal of to-do over the mere opening of a hotel. And to some, the Summit's two-color terrazzo sidewalk, marble, glazed brick, and ceramic tile exterior give it all the quiet elegance of a Main Street brass band on the Fourth of July. But after a 30-year famine, New York is starved for hotel accommodations, even though the Hotel Assn. of New York City, Inc., says the town's 400 hotels have nearly 120,000 rooms. The trouble is that many are shabby, and only a few worth staying at.

The Summit's 800 rooms keep it out of the big leagues of hotel operation. But it will make up in service what it lacks in size. For example, it solves the number one problem of visitors—parking—with 225 interior parking spaces.

**More coming.** The Summit is significant though as a forerunner of





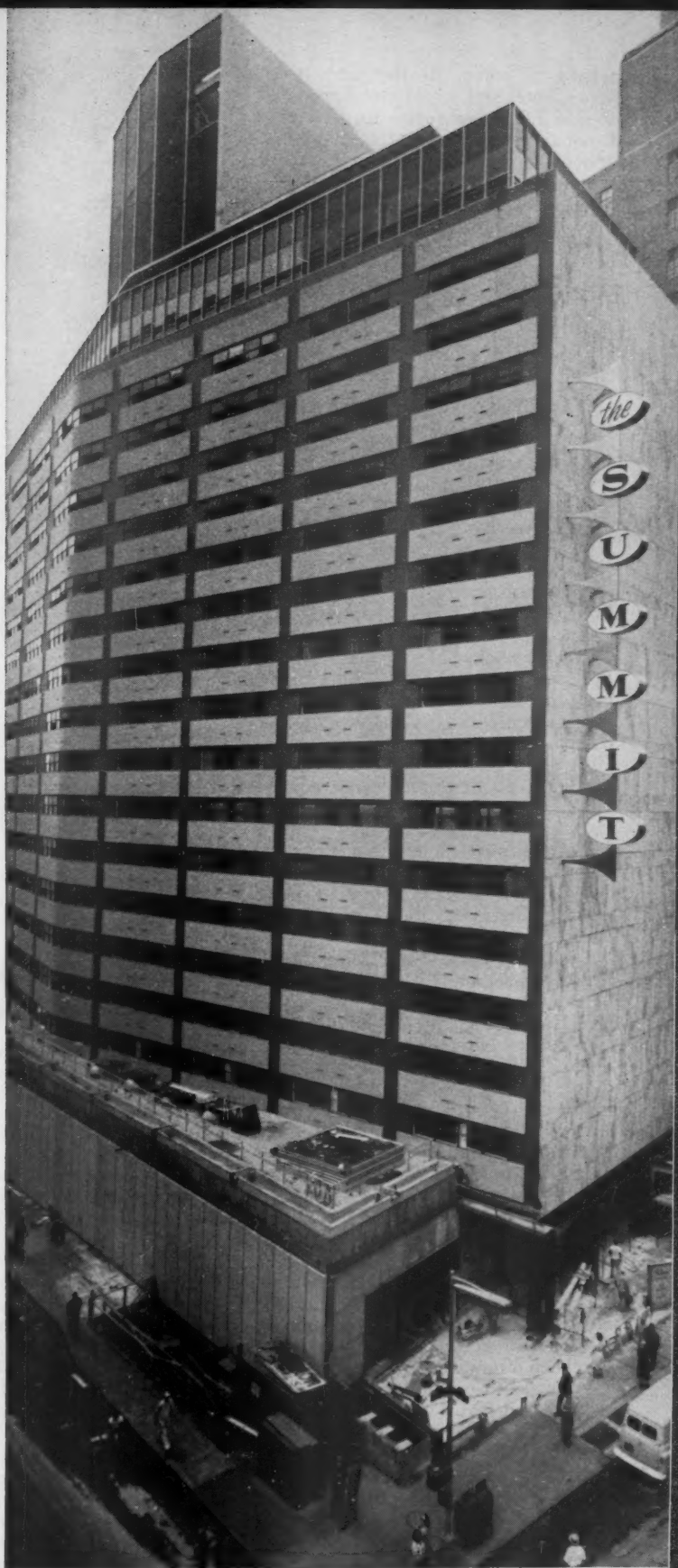
Final jobs include hiring the help . . .



. . . painting and decorating rooms . . .



. . . installing glass entrance doors to New York's new 21-story hotel, the Summit.



what's to come. In the next two years, hotel and motel builders plan to add 7,000 new rooms to the city. Loew's, itself, plans to add 4,000. Among the new buildings:

- Loew's Americana, a 50-story, 2,000-room hotel is in the steel stage now, will open in 1962 on Seventh Avenue between 52nd and 53rd Streets.

- The New York Hilton at Rockefeller Center is having its foundation dug, will rise 45 stories and contain 2,165 rooms when it opens New Year's Day, 1963. Its builder is Rock-Hil-Uris, a name derived from the three partners—Rockefeller Center, Inc., Hilton Hotels Corp., and Uris Buildings Corp.

- An as yet unnamed 450-room luxury apartment hotel will be erected on Park Avenue and 61st Street by Loew's Hotels.

- Two motor hotels, one under construction now, are being built by Loew's in the Times Square area, and will provide another 600 rooms.

To questions of whether New York could come out of all this building with too many rooms for rent, hotel executives say "no," despite a recent report by hotel accountants Horwath & Horwath that hotel earnings in 1960 were the worst since 1941. Preston R. Tisch, president of Loew's Hotels, says New York is ripe for 10,000 new rooms, that several older hotels are scheduled to be torn down. Tisch is sure, too, that the new buildings will simply take away business from the older hotels.

**Tisch technique.** Preston Tisch and his brother, Loew's chairman Laurence A. Tisch, have been unerringly right about the hotel markets they've entered ever since Laurence Tisch plunked down \$125,000 of the family savings for a small Lakewood (N.J.) hotel in 1946. The Tisches today are estimated to be worth \$65-million. They have bought, renovated, built, and operated hotels from New York to Florida, and put up the opulent Americana four miles from a Miami Beach glutted with hotel space.

The difference was that the Tisches sought and got convention business—a move they are duplicating for New York's Americana. They also keep a hawk-eyed gaze on costs. The Summit accounts, for example, will be tied in by wire to a central accounting system maintained by Loew's. The Tisches don't hesitate to spend money, but expect it to bring in returns. The \$100,000 they spend next week on hoopla is part of the "selling job." And Laurence Tisch is as familiar as one can get with the tax laws and with real estate depreciation formulas.



Gen. LeMay, new Air Force head, bucks Administration, calls for Aircraft stepup.

## Kennedy steering middle Berlin course

**Advisers disagree on defense measures to counter threat, but he seems ready to call for modest immediate steps tied to ambitious long-range preparedness plan**

**Pres. Kennedy** this week is pondering new defense measures to meet the Berlin threat and counter the Kremlin's announced new military buildup. He will announce his decision in a televised speech Tuesday night.

The importance of the decision he must make opens the gate for all the old arguments about how to bolster U.S. military might—including Gen. Curtis E. LeMay's plea for more Strategic Air Command bombers (picture) and Gen. Maxwell D. Taylor's costly plan to expand and modernize the Army.

**Conflicting advice.** At midweek the President was being buffeted between contrary proposals from his advisers. On one side were calls for such dramatic emergency moves as large-scale mobilization of reserve forces, deployment of more troops to Europe, bolstering the Berlin

garrison, evacuation of U.S. dependents from Germany, and an operational-scale airborne bomber alert.

But there were also voices of restraint, advising against short-term flamboyant measures that could heat up world tensions without adding much to the U.S. strategic position in the crucial months ahead.

Some advisers cautioned against any overly provocative military steps that Khrushchev could easily match. Others proposed long-term action to strengthen U.S. military might for the longer pull—the LeMay and Taylor plans, for instance. They urged, in short, measures with long-range consequences rather than hasty crisis reactions.

**As it shapes up.** At midweek, this was the outlook: The President is ready to approve a program of modest immediate measures tied to a



## **"I like a man who has the answers"**

President Raymond Bryan of the T. A. Loving Construction Company in Goldsboro, North Carolina, has this to say about American Mutual, "Clem Stolzer always comes up with the right facts and figures. He and his American Mutual people have helped us improve our coverage while reducing our Workmen's Compensation costs to 17% below the industry average in the last five years."

It will pay you to talk to the American Mutual man in your area—he really knows his business when it comes to coverage and costs. You'll find he has a fully-staffed office of experts... and he's listed in the Yellow Pages.

Raymond Bryan, left, is President of T. A. Loving Construction Co., one of the country's major construction firms. Here he discusses insurance with Clem Stolzer, American Mutual Sales Manager in Raleigh, N. C., in front of a new Loving project—the Harrelson Hall classroom building on the North Carolina State campus.

**American  
Mutual** 

**LIABILITY INSURANCE COMPANY**

©1961, American Mutual Liability Insurance Company, Wakefield, Massachusetts



# Kennedy fears that spectacular moves now would look like a bluff later . . .

Story on page 34

more ambitious long-range preparedness plan.

Short-range, this would mean mobilization of only selected military reserve specialists, tougher training schedules for reserve units, deployment of probably only one extra Army division to Europe, and increased tests of an airborne bomber alert.

Longer-term, tactical arms and equipment buying would be accelerated and draft calls boosted to expand the size of the Army.

Total cost of the new measures: \$2-billion to \$3-billion over and above the \$2.2-billion Kennedy has already tacked on to Eisenhower's \$41.8-billion defense appropriation request for this year.

**Kennedy's view.** These decisions reflect the President's assessment of the Berlin crisis, politically and diplomatically. He is concerned with the dangers of what his advisers call "political escalation"—matching truculent steps on both sides that would limit U.S.-Soviet freedom to negotiate, and that could make war more likely.

He also fears that spectacular moves now—such as massive mobilization of reserves—would look like a bluff later, when more modest concrete measures are taken to counter Khrushchev's tactics. He is worried, too, about the effect on Allied unity and world opinion of striking a belligerent stance that might scare friends more than it impressed foes.

Beyond that, Kennedy wants any defense moves to contribute to the long-range strength and balance of U.S. military forces and to avoid stopgap expedients.

**Triple choice.** A fortnight ago, the President ordered the Defense Dept. to make another quick review of military needs in the light of Khrushchev's saber-rattling. The Pentagon was given three different assumptions on which to base revised requirements, and asked to total up how much more money and men it would need to carry out each of the alternative plans.

The assumptions varied widely. One is described as "taking a club and telling Russia we'll knock their brains out if they bar us from Berlin." Another, as expressed by Sen. J.W. Fulbright, chairman of the Senate Foreign Relations Commit-

tee, is that arms won't prove anything. In between was a plan incorporating features of both hard and soft approaches. But even the "soft" program would be "harder than what we have now," said one source.

**"Hardest" plan.** The Pentagon's "hardest" recommendation is for mobilization of up to eight National Guard and reserve Army divisions and selected Air Force and Navy personnel—about 150,000 of the 2.4-million ready reservists.

It also envisages deployment of extra tactical air squadrons to Europe, bolstering the Mediterranean and Far East fleets, putting Navy transports back into service, and an operational airborne bomber alert. Already, about 12 B-52 bombers are in the air at all times. The Air Force could expand this to about 100 planes, one-sixth its B-52 force.

**Taylor's position.** The Defense Dept.'s recommendations were amplified at the White House by Gen. Taylor, retired Army Chief of Staff and now the President's personal military adviser. Taylor feels the Berlin situation should be handled as another episode in the broad picture of the cold war, rather than as a unique crisis.

Taylor wants a massive stepup in long-term procurement of con-

ventional arms and equipment running to about \$3-billion extra a year. This reflects Taylor's long-time argument that limited war is a greater threat than all-out nuclear conflict.

**Bucking the line.** The President's plans now mirror much of Taylor's thinking, although they fall short of his price tag. The plans do not reflect, however, the controversial views of Gen. LeMay, new Air Force Chief of Staff.

LeMay was offered a forum this week by the Senate Appropriations Committee. He bucked the Administration position and called for a substantial stepup in development and production of manned aircraft.

He wants to buy 45 more Boeing B-52 bombers and to keep the company's production lines, now scheduled to shut down next year, running until the more advanced 2,000-mph. North American Aviation B-70 is ready. He also wants to double spending for B-70 bomber development this year (already cut back by Kennedy) and buy 275 extra Republic Aviation F-105 supersonic fighter-bombers.

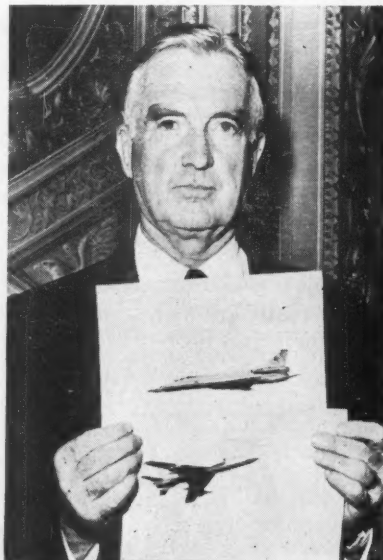
The Senate committee's reaction was clear-cut: It is ready to vote most if not all the extra funds LeMay would like.

Congress has already passed a military procurement authorization bill allowing the Air Force an extra \$525-million for long-range bomber production (enough for an additional wing of 45 B-52s). The House has approved an appropriation bill providing \$448.8-million extra to continue output of either the B-52 or Convair's B-58 shorter-ranged but supersonic bomber, or to speed B-70 development work.

**Soviet airpower.** LeMay's remarks were followed by an unclassified presentation of the Air Force's evaluation of Soviet airpower advances (picture) shown at last week's Moscow air show (BW—Jul.15'61,p30).

In guarded tones, an Air Force general said the Russians flew two new long-range supersonic bombers—one of which could have a speed of about 1,400 mph.—and three new supersonic fighter planes, including one that might be comparable to the canceled U.S. F-108.

**Reluctant.** Industry contractors were still reluctant to speculate how the new round of defense increases will affect industry. Most aircraft company leaders privately doubt that the B-70 program—despite Congressional efforts—will be increased beyond the present schedule. But they believe the Administration may have to give in to the pressures to buy more B-52 bombers.



Sen Symington says Red air show means U.S. has been "hoodwinked."



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A call to any of our 1,000 agents throughout the United States and Canada "feeds" your particular and individual requirements into the North American International Division, "pre-programmed" by the largest overseas agent network, and the longest and most intensive overseas moving experience of any van line.

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Each move completed by North American in five days; Chrysler-estimated savings of several thousands of dollars per move in total relocation costs over other moving methods.

Whether your next overseas moving problem is imminent, or in the undetermined future, write us (or call your *local* North American agent) now. We'll send you a most illuminating folder on this important phase of expanding your overseas markets.



**NORTH AMERICAN VAN LINES**

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FT. WAYNE

INDIANA

## Pickup and delivery charge O.K.'d on small shipments by big Eastern roads

The Interstate Commerce Commission will allow major Eastern railroads to charge for hitherto free pickup and delivery service on small shipments, starting this Saturday. Smaller roads will be allowed to raise their existing charges for these services.

ICC granted the charges a bit reluctantly, saying they were justified only by the plight of the Eastern roads. Opponents of the charges argued that they would increase the likelihood that less-than-carload-lot service would disappear entirely, by causing freight to be diverted to competitive carriers.

The new charges will range from 20¢ per 100 lb. in smaller cities to 60¢ in New York.

## Senate gives a chance for life to huge Hanford nuclear power project

The Senate this week breathed life back into the plans for the world's biggest nuclear power project. It approved an Administration-backed proposal to tie \$95-million worth of electric generators to the Hanford (Wash.) new plutonium production reactor. Last week, the House knocked the generator out of the Atomic Energy Commission's construction budget for fiscal 1962.

The budget bill now goes to Senate-House conference for reconciliation of differences. If neither side will yield, the whole construction bill will be held up.

Republicans oppose the generators because they see in them an expansion of federal public power. Pres. Kennedy has backed the facilities, which would use the reactor's 11-million lb. of steam per hour to feed 763,000 kw. of power into the Bonneville grid (BW—Jul.8'61,p32).

## Labor Dept. says Teamsters growth is not what the union claims

Growth of the International Brotherhood of Teamsters under James R. Hoffa may have been much less dynamic than Hoffa would have outsiders believe. Indeed, Labor Dept. figures indicate that the IBT lost ground—along with the rest of labor—over the past few years.

Teamsters officers boasted at their recent convention that the IBT added members by aggressive and successful organizing while the rest of labor lost ground. Labor Dept. figures "leaked" shortly afterward show the IBT lost ground, too.

Financial reports by the Teamsters to the government in 1957 and 1960 showed the IBT averaged 1,565,071 members during 1957, under Dave Beck, and 1,481,147 in 1960. This would be a loss of 83,924, or 5% to 6% in the three years under Hoffa.

The IBT's figure for average membership in 1960 isn't much different; the Teamsters reported about 1,482,750. But IBT says this is a gain of about 65,000 over "real" figures for 1957. The union had an average membership of 1,417,273 in that year, according to Hoffa statistics.

Teamsters membership is cited by its spokesmen at a round figure of 1.7-million. That's the IBT peak set in November of last year, and it includes seasonal members and those on withdrawal cards—out-of-work members who do not pay dues. The figure was 1,700,992.

## Kennedy sets second-quarter GNP at unexpectedly hefty \$515-billion rate

Gross national product in the second quarter apparently expanded more substantially than had been expected.

Pres. Kennedy, at this week's press conference, placed the estimated value of all goods produced and services rendered at an annual rate of \$515-billion. That was almost \$15-billion, or virtually 3%, above the first quarter—the recession low.

This preliminary GNP figure, if confirmed on further calculation, would top by \$10-billion the old peak rate of \$505-billion in second-quarter 1960.

## Big companies asked to help speed mail by diverting a part from peak hours

Postmaster Gen. J. Edward Day this week asked the help of 2,500 top companies in 250 cities in a new program to speed business mail at the peak hours from 5 p.m. to 9 p.m. In that stretch about half of all mail is posted.

The idea is for the companies to divide their mail into essential and nonessential categories.

The priority classes would be mailed as usual during the rush hours, and would receive speedy attention. The rest of the mail—monthly statements, billings, notices, etc.—would be held till the morning hours when manpower would be available to handle it.

## FCC gives initial approval for hike in leased-line telegraph rates

Rates for leased telegraph lines would be increased by an annual \$2.7-million for AT&T and \$750,000 for Western Union under an initial decision this week by the Federal Communications Commission.

FCC has ordered the companies to submit rate schedules by Aug. 15 to carry out the objectives. Then proponents and foes of the schedules would have until Sept. 15 to file their views.

In a separate statement, FCC Chmn. Newton N. Minow was considering negotiating with AT&T for a further cut in long-distance phone rates.



# Washington outlook BW

July 22, 1961

## The Kennedy of Berlin isn't the Kennedy of Cuba

Pres. Kennedy makes it clear that he is changing his concept of how the Presidency should be run.

In coming to his decision on what the Berlin crisis requires, he is taking a sharp turn away from the methods he used when he approved the invasion of Cuba.

Then he looked chiefly to his small circle of White House advisers.

This time, he is using the whole complex apparatus that surrounds the Presidency, moving openly and with almost tedious attention to detail through all the formalities of decision-making.

By the time he goes on TV and radio Tuesday night to tell the people what the decision involves, he will have drawn on the whole institution of the Presidency.

## In limelight: the traditional department heads

The process began two weeks ago during Kennedy's weekend at Hyannis Port.

Note who attended: Dean Rusk, the Secretary of State; Robert S. McNamara, the Secretary of Defense; Gen. Maxwell D. Taylor, Kennedy's White House adviser on military affairs.

Next, the Joint Chiefs of Staff were asked to submit requirements for the defense of Berlin—another recognition of the formalities.

Kennedy then conferred with Congressional leaders, giving them a hint of what the money requirements were likely to be. He also checked with former Pres. Eisenhower as the most respected voice of the Republican Party, and as a military elder statesman.

Tuesday, he met in the White House with the Joint Chiefs of Staff. Some of his own advisers attended, but the Chiefs held the spotlight.

Wednesday afternoon, he presided over a meeting of the National Security Council, where his plans—then almost completed—were discussed.

Finally his decision was forwarded to our allies.

## Conflict of views still encouraged

Kennedy is being subjected to conflicting lines of advice (page 34), with advocates of a "hard" line arrayed against those who favor a softer reaction. Kennedy still views a conflict of this kind as useful, even essential.

This week's White House meetings showed the "hards" and the "softs" weren't so far apart as originally thought. Aides describe the differences as minor, involving emphasis and timing.

Kennedy is dissatisfied with the performance of Chester Bowles as Under Secretary of State, and will seek a new job for Bowles. This is not due to a dispute over ideas. Kennedy is critical of the time it took the State Dept. to draw up the U.S. reply to Khrushchev on Berlin, and probably blames Bowles in part.

## Berlin crisis dims hopes for a tax cut

The Berlin crisis may kill any chance of a tax cut next year.

The new spending Kennedy is going to ask probably will eat up most of the surplus fiscal planners had foreseen in fiscal 1963. This surplus was to have been the basis of a tax cut, if all had gone well.

Now the prospect is for a budget barely in balance. Any tax cut proposal would have to be offered as a means of stimulating the economy, at the cost of deliberately creating a deficit for a year or two.

## Washington outlook Continued

Although the professional economists in the Administration might defend this reasoning, the politicians don't like it.

### Quitting date talk dies out in Congress

Berlin virtually puts an end to speculation about a quitting date for Congress.

Last week, leaders of the House were still thinking about going home before Labor Day. Speaker Sam Rayburn knocked medical aid for the aged off the list of bills for this year and was neutral toward the unemployment aid bill and the Administration's tax program. He was talking about cleaning up four appropriations bills and letting other issues ride over.

This week, the possibility of staying in session until the middle of October is being discussed by Wilbur Mills, chairman of the House Ways & Means Committee, and other House leaders.

### Senate readies its own test of tax bill

The bill to stimulate plant modernization by means of a tax credit—if one passes the House this year (page 30)—will face a skeptical but not unfriendly Senate Finance Committee.

Sen. Harry F. Byrd, Finance Committee chairman, believes the bill in the form now being considered by Ways & Means is an improvement over the first versions. For one thing, he likes the idea of limiting the tax credit to machinery instead of extending it to building also, as the Treasury originally proposed.

Senators have been told that the goal of Ways & Means Chmn. Mills is to provide \$900-million of new revenue to offset the \$1.1-billion expected to be lost by the modernization credit. If Mills manages to keep the revenue loss that small, the bill's chances will be improved with conservatives of the Byrd type.

### Administration won't give up on school aid

Desperate efforts will be made by the Administration to save its school aid bill, despite a decision of the House Rules Committee this week to table the whole issue.

One possibility is the "calendar Wednesday" device by which a committee chairman can call up a bill. Another is to have the House Education & Labor Committee report out a new bill, this one limited to construction aid. By dropping aid for teachers salaries, opposition—which killed the original bill in the Rules Committee—will be reduced, Administration strategists believe.

### Consumer council loses its glamor

A consumer's council in the Administration, promised by Kennedy in the campaign, has lost the appeal it once had for Kennedy and his advisers.

Some kind of a voice for consumers will be established if only to make good on the campaign promise, but the project has a low priority and the voice seems likely to be a weak one.

The original idea was that the council would intervene in matters of rates, prices, quality, advertising, labeling—anywhere the consumer's interest might be involved. It could have been a constant source of harassment to business and the established agencies.

Now the idea is that the office will be little more than one person acting as a consumer's spokesman, with two or three researchers. Officials haven't decided whose roof to put it under: the White House itself, the Council of Economic Advisers, or one of the departments.

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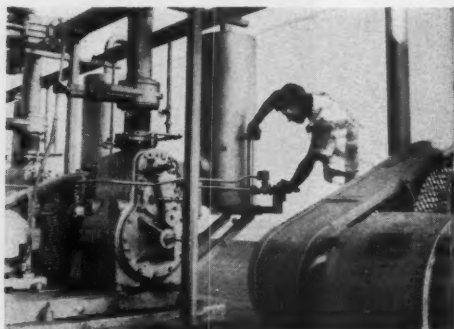
# cuts costs \$19,085 in 18 months!

A FAMOUS NAME in this age of speed and space is Convair, maker of the 990, our fastest commercial jet; our fastest bomber, fastest fighter, most versatile intercontinental ballistic missile. Convair, operating a great complex of plants in the San Diego area of California, relies upon the Mobil Program to help reduce its operating costs and keep its vital work going smoothly, efficiently.

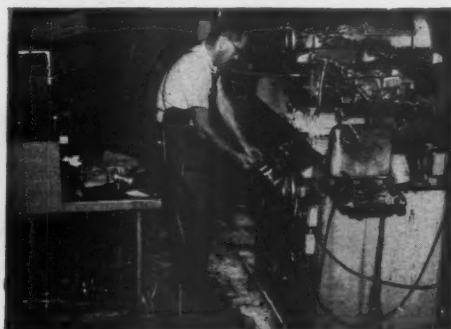
An indication of the success of this program is the fact that in the last 18 months Convair has benefited by a direct savings of \$19,085. Convair has enjoyed *substantial* dollar savings every year

for more than ten years from the Mobil Program . . . and *priceless*, indirect savings in smoother operations and less downtime.

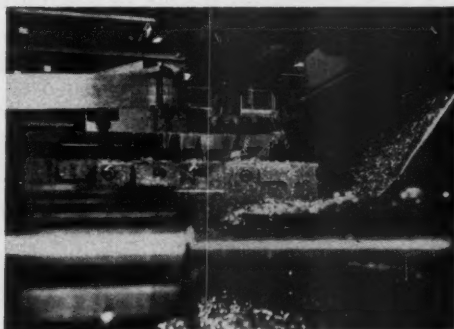
The systematic, continuing Mobil Program has achieved remarkable results. And the Mobil Program offers *you* today an outstanding combination of experience and expertise, products and proof of performance . . . a combination that assures you of superior results in lowering your operating costs. For further information, contact your Mobil Representative or the Mobil Oil Company, 150 East 42nd St., New York 17, N.Y.



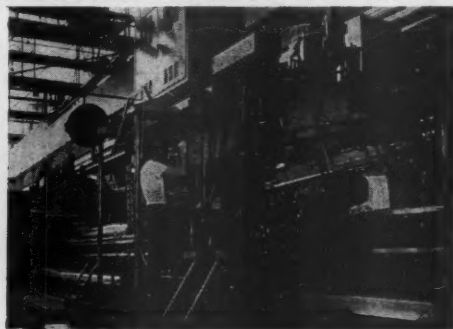
Convair employs numerous vacuum pumps in test equipment designed to simulate space conditions. Shown here is the Astronautics facility, the largest of its kind, now actively contributing to our space program. In July, 1959, Mobil Vacuum Pump Oil replaced several more costly competitive products then in use. Results were equal or superior. Savings for the past 18 months: \$1,339.05.



Convair-San Diego experienced recurring sluggishness of table hydraulic control valves on a critical grinder. When monthly draining did not correct the condition, Mobil Engineers recommended flushing with solvent to loosen and dissolve contaminating materials. There has been no recurrence of valve sluggishness, and oil-change intervals have been greatly extended. Savings for 18 months: \$1,550.58.



In July, 1959, a Mobil cutting-oil specialist, in cooperation with Convair production personnel, set up a coolant reservoir maintenance schedule and helped train personnel in improved maintenance procedure. These steps, along with the introduction of a Mobil water soluble coolant, extended coolant service life up to 600% in many cases. Savings on these metal-working fluids for 18 months: \$7,849.05.



Over 6,000 electric motors ranging from 5 to 250 HP power Convair-San Diego equipment. Although lubricated bearings are being replaced with sealed-for-life units wherever possible, Mobil Engineers recommended a new grease for use on the remaining motor bearings. This doubled lubrication intervals from six months to a year, resulted in savings over an 18-month period of \$4,666.12.

## Correct Lubrication





Shipments of tooling made by Ford-Mexico go to Chile, Rhodesia, Singapore, Turkey, Egypt, Australia.

## PRODUCTION

# Versatile tooling aids overseas car assembly

**Ford-Mexico turns out tooling that handles nine different models; it has stepped up output for growing overseas markets**

For years, auto makers have been trying to crack a really hard nut: the market for cars in countries that are just developing a modern industrial economy.

Auto companies can export cars to these countries, of course, but shipping costs and duties may be sky-high. So they would rather ship parts in, and assemble them with local labor.

In doing this, however, tooling is a problem. Production in these countries is strictly a short-run proposition where an order may come in one day for five or 10 autos of one model, followed a few days later by another order for eight cars of a different model. There just isn't enough business to justify a separate, Detroit-type tooling line for each model, and a single line that has to be retooled between models isn't economical.

**Ford's way.** So far, the problem has proved a real jawbreaker, but now Ford's subsidiary in Mexico, Ford Motor Co., S. A., has at least cracked the outer shell. Instead of a Detroit-style, tooling line for each car model,

Ford-Mexico has developed tooling that can be used for several. It is lumping subassembly jigs for several auto models into a single, catch-all package, and doing the same thing with body jigs and body bucks (pictures).

Jigs, of course, are the tools—something like a giant pegboard—that hold a subassembly or body assembly in place while it's welded; a body buck is the platform upon which final assembly takes place and finishing touches, such as trim and paint, are applied.

For the last few years, Ford-Mexico has turned out this tooling only for itself. Now it's producing it for several other Ford plants around the world. "The really important thing," says one observer close to Ford-Mexico's operation, "is that Mexican production technicians—born and raised in Mexico—have invented something that Detroit engineers might never have thought of. This is because Detroiters haven't had to live with the problems of low-volume, hand-to-mouth produc-

tion the way the Mexicans have."

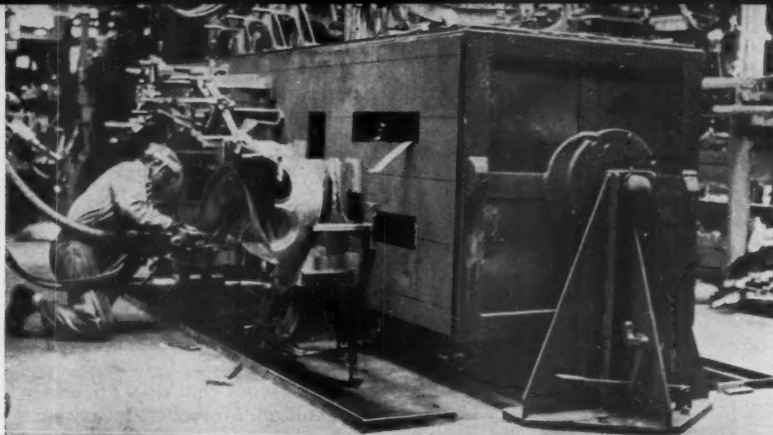
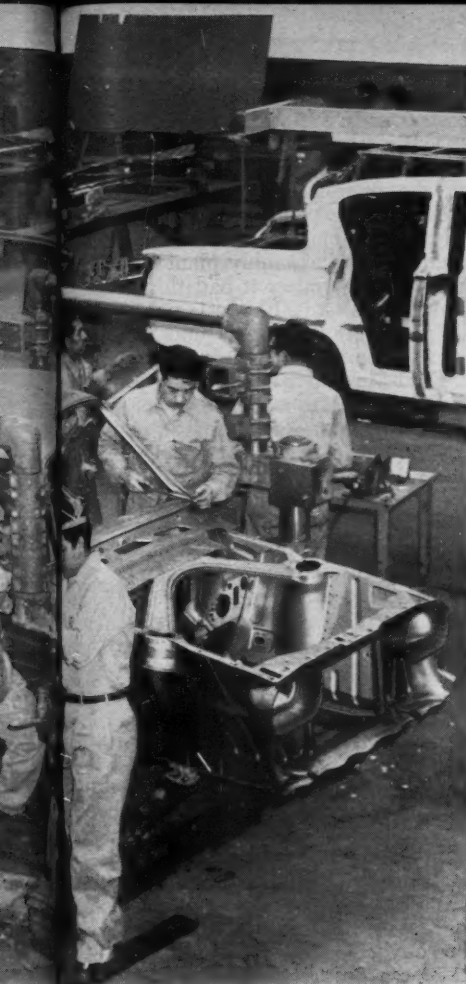
**Flip-over tooling.** The basic idea is the brainchild of Sebastian Aguinada, Ford-Mexico's technical manager, and Miguel Rojas, chief of Ford-Mexico's tooling department. The problem originally facing them was typical of that besetting any auto producers trying to cultivate a market in underdeveloped or "developing" countries.

Ford-Mexico sells only about 10,000 vehicles a year, compared with over 2-million a year sold by Ford in the U.S. It receives parts from U.S., West German, and British plants for assembly into nine different models. For Ford-Mexico, it was just no longer economical to re-rig a line for a short run of Anglias or Taunuses when everything was set up for, say, the standard U.S. sedan.

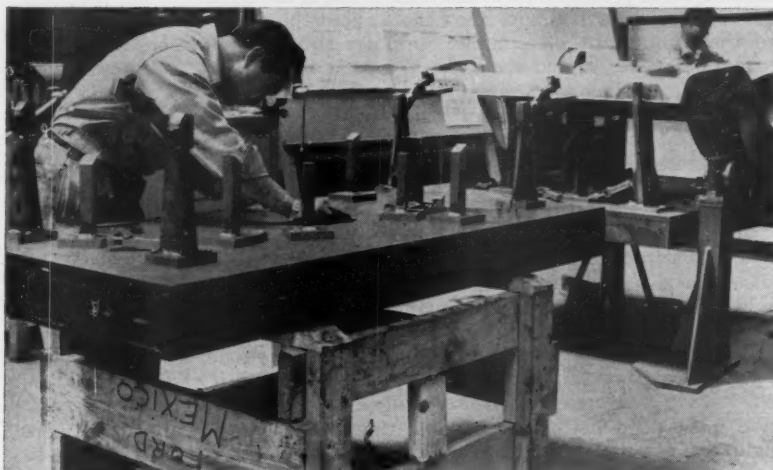
Aguinada and Rojas first designed the flip-over jig. This is essentially a giant box that rotates on a spindle (picture, page 49, top right). Each of the four sides of the box is a jig for a different model. Say the line is working on the Ford Falcon, and



Tests of equipment are made in Ford-Mexico's production line; here a Ford Taunus is assembled in a new buck to



**Flip-over jig** is key to Ford-Mexico's quick-change tooling line. Each of four sides of box-like jig is for a different model. To switch, it just flips over.



**Small, subassembly jig** is being built by Mexican worker for shipment to Rhodesia; tooling equipment is hand-crafted, made from Mexican materials.

check it out before it is crated and shipped to the Rhodesian plant.

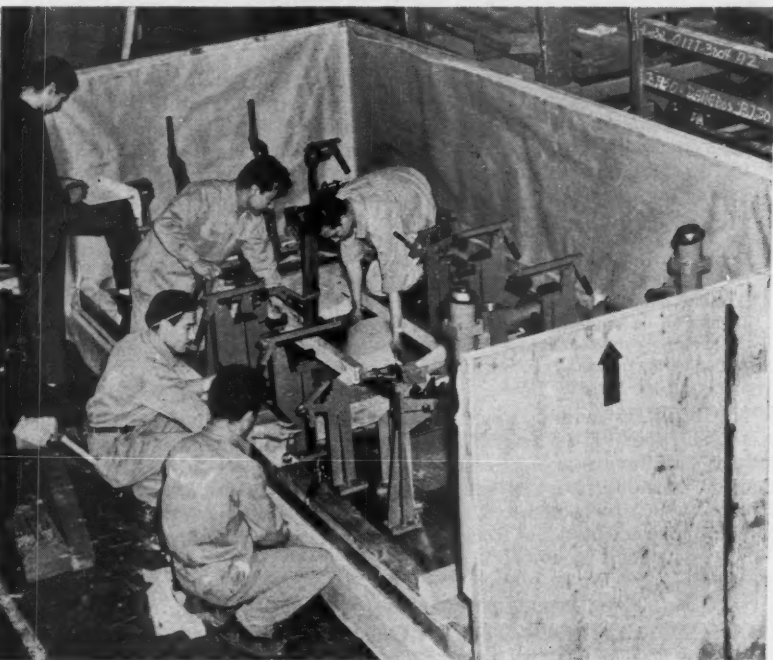
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Once a piece is welded, it goes to a buck. This also has color-coded clamps. Unlike standard tooling, clamps on the buck can be pushed out of the way to suit each model.

Ford-Mexico's tooling equipment is all but hand-crafted, and is made nearly 100% from Mexican materials by Ford-Mexico's own tooling production division. When a production jig or buck is put together in Mexico for one of Ford's other foreign plants, it's tested in Ford-Mexico's regular production line, along with Ford-Mexico's own tooling. This way, errors are spotted before it's shipped to its destination.

**Where they go.** Right now, Ford-Mexico is producing jigs and bucks for Ford plants in Rhodesia, Singapore, Turkey, Egypt, New Zealand, Argentina, and Chile.

By making its tools in Mexico, Ford



**Checked out tooling** is crated for overseas shipment. Ford-Mexico's adaptable tooling was created by Mexican technicians to handle low-volume output.

# Rockwell Report



by W. F. ROCKWELL, JR.

President

Rockwell Manufacturing Company

COMMUNICATIONS is a word that does not easily lend itself to definition. Moreover, the practice of communicating is far more meaningful than the theory.

We use as many channels to reach as many interested groups as possible. Customers and prospects must know more about the quality of our products and service. Employees must know more about the character of our business and their important place in it. Suppliers should know more about our production processes and methods. We want investors to share our belief in our future.

Most of all, we want to communicate our belief in the private enterprise system by demonstrating how it benefits the individuals in all these groups.

The results of these efforts are probably somewhat similar to those achieved by other companies in many industries. We wonder if they are as appalled as we are by the apparent lack of success in conveying this belief to what may well be the most important group of all—the customers, employees, suppliers and investors of the future?

Here are the results of a recent Research Opinion Corporation survey of the seniors of a prominent eastern high school: *Sixty-one per cent did not believe in profits; 83 per cent estimated industry profits to be up 50 per cent; 62 per cent thought workers should not produce all they could; 53 per cent voted for government ownership of banks, railroads and steel; 55 per cent approved the idea, "From each according to his ability—to each according to his needs."*

We must do a better job of educating these young men and women. Obviously, parents can do it best. There are, however, means available to us as businessmen if we look for them.

One in which we have participated actively for many years is the Junior Achievement program. Our sponsorship of this activity helps many youngsters learn the business principles of private enterprise in the most practical way possible—by doing. It doesn't require a survey to predict that their answers concerning profits, productive effort and its rewards would vary considerably from those shown above.

\* \* \*

*This year, for the first time, we invited the presidents of all the Junior Achievement clubs in our region to attend our annual stockholders meeting. Following this meeting, a special seminar was conducted for their benefit. Their intelligent discussion proved they were learning more about private enterprise—by participating.*

\* \* \*

Ever watch a big D-9 Cat tractor push a heavy scraper in a tough earth-moving job? The jolt gives quite a beating both to the equipment and the drivers. That's why Pushin'-Cushin', a new product was developed. This is a hydraulic shock-absorbing unit for use on large earth-moving tractors. It is quite effective in eliminating the damaging shock in tractor-scraper operations, thus prolonging equipment life, and speeding up work.

\* \* \*

We are forcefully reminded every day that the best product in the market doesn't sell itself. The art of salesmanship, when combined with a good product can have startling results. One such example has come to our attention in the territory of one of our water meter sales engineers. Out of 22 towns which have adopted metering in this territory in the past three years, 21 have selected the Rockwell Sealed Register meter.

This is one of a series of informal reports on

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saves at least 40% in original tooling costs over U. S. sources. In Rhodesia, an entire plant is being built under Ford-Mexico supervision, and almost all the equipment is coming from Mexico in a package deal. "Actually," says Rojas, "Rhodesia couldn't even have an assembly plant for all Ford models unless it had this total package." As it is, Rhodesia now will be supplying Ford cars and trucks for itself and other African countries.

Ford-Mexico may have an even broader outlet for several of its jigs than just these "developing" countries. Some of Ford's Mexican engineers think high-volume U. S., European, and British Ford plants could adapt a few of Ford-Mexico's versatile minor subassembly units—to produce, say, windows for a whole range of models.

## Now IBM system helps get reports to right people

Last week International Business Machines Corp. demonstrated a new computer-based technique that could help—particularly in large, technologically oriented companies—to get the right reports promptly into the hands of the right people. Called Selective Dissemination of Information, the system has helped IBM's own research departments solve part of the problem of distributing information culled from internal reports and outside publication to over 500 engineers and management people.

The system, a result of IBM's research effort in the field of automatic information retrieval (BW—Jul. 8'61, p46), matches key words culled from incoming documents to "interest profiles"—similar lists of key words submitted by participating employees. When a document comes in, its key words are punched in code into cards. The cards, fed to a computer, are matched against the participants' interest word lists; and where there is a reasonably good matching, a punch card is sent to the employee notifying him that the report or publication is available.

As the program is used, its feedback features automatically add to the "interest profiles" of the subscribers. Eventually, IBM hopes to complete a program that will not only distribute notices or abstracts of documents, but will also have a working indexed library so that subscribers can request a search.

A further step in this system would also yield the names of other employees whose interest profiles indicate knowledge of the subject. **End**



# New look inside blast furnaces

**Operation of U. S. Steel's experimental stack and construction of full-scale furnace should provide first really sophisticated understanding of the iron-smelting process**

In the last decade, some of the nation's steelmakers have upgraded by more than a third the performance of their best blast furnaces—the centuries-old tools that smelt iron for the production of steel. In the next five years, the improvement may be even more dramatic.

U. S. Steel Corp. has been driving for blast furnace efficiency as hard as anyone in the industry. This week, it accelerated the campaign no end when its research people began operating a watch-charm-sized experimental stack at Universal, Pa., near Pittsburgh. Its 19.5-ft. working height and 4-ft. diameter make it less than quarter-size.

But this miniature stack will be equipped to perform at levels several times higher than today's best. And it is just the junior forerunner of a new full-size blast furnace due for completion by mid-1962 in Duquesne, Pa. Duquesne won't be the largest in the industry, but it will be the biggest producer in the Free World.

**Mountain of data.** Between them, the new stacks at Universal and Duquesne will be set up to provide U. S. Steel with all the data anyone could possibly want about the still somewhat mysterious workings of a blast furnace—exactly what happens in its seething insides, why it happens, and how the process can be improved. This mountain of information should give the corporation a flying lead over its competition in the common effort to make blast furnaces produce more.

At the same time, Duquesne will add something more than 10% to U. S. Steel's present iron-smelting capacity in the Pittsburgh district. John W. Price, Jr., Duquesne's general superintendent, is confident of making money off everything on the furnace, sooner or later, despite delays that elaborate experiments might cause.

**Why the fuss.** There's a simple reason for steelmen's obsession with making existing blast furnaces more efficient, even in times of surplus capacity. The reason is costs. A new blast furnace is staggeringly expen-

sive; U. S. Steel is spending more than \$25-million on Duquesne.

Employment costs pushing \$4 per manhour are an extra incentive to increase efficiency wherever possible.

## I. Necessary experimentation

Steelmen have used blast furnaces to make iron for more than 150 years. You might think that by now they understood the furnaces pretty thoroughly. Until fairly recently, though, most companies gave them female names because, as iron trade legend has it, "the finest blast furnace is as cranky and unpredictable as a pregnant woman."

The smartest blast furnace operators don't know everything that goes on inside a stack—and they aren't at all certain about a good deal they do know. They're dealing with a huge, sealed vessel in which a chemical process continuously occurs—at temperatures among the highest men know how to use. Raw materials, product, and waste move steadily to and from the furnace at rates of up to about seven tons per minute.

In running a blast furnace, you must juggle a great many variables. For one thing, every blast furnace operates differently, even under practically identical conditions. For another, there are variations in types and grades of all the things that make up the charge that goes into the furnace—ore, coke, fluxing stone—and in particle size of these materials. Blast temperature may be equally critical. And the industry is deeply involved in exploring a drastic change in iron-smelting—the substitution of gaseous or liquid fuel for part of the coke, plus the use of oxygen to enrich the hot blast. For a full understanding of a blast furnace's workings, the interrelationship of hundreds of these variables must be found.

**Areas for study.** At Universal and Duquesne, U. S. Steel will be staging a massive experimental program to record the first definitive data the industry has ever had on such a scale—and, at the same time, to turn out

as a routine matter a record-breaking flow of iron.

Of course, the program doesn't envision covering every possible combination. The corporation has standard ore, stone, and coke grades for its Pittsburgh district blast furnaces, and it also has standard practices. These things alone eliminate thousands of combinations.

On the other hand, the record-high temperatures and pressures (up to 2,000F and 30 psi.) to be used in the new stack enlarge the experimental area almost infinitely beyond the outer limits of any previous tests. They also inject some entirely new variables—primarily mechanical—that simply must be pinned down. For example, at such temperatures and pressures what will happen to refractories, gas-seals, blowers, gas-handling devices, and all the rest? Can some way be found to use the energy in the huge volume of 30-psi. off-gas that will result?

All these are merely the obvious areas for experiment. Only a blast furnace operator can grasp the enormity of the frontier that Universal and Duquesne open to exploration for the first time. In perhaps two years, the program should provide the first really sophisticated understanding of one of the most basic processes in U. S. industry.

## II. What can be achieved

It would be impossible even to propose such a program without an entirely new furnace.

U. S. Steel will have that furnace in Duquesne. In some ways, Duquesne doesn't sound particularly startling. Its 28-ft. hearth diameter is not more than routine among the industry's finest stacks these days. Actually, there are already 20 in service with larger hearths. The largest: Great Lakes Steel's 30.25-ft. monster at Ecorse, Mich.

And Duquesne's rated capacity of 850,000 tons per year is equalled by one existing furnace—Armco Steel Corp.'s No. 3 at Middletown, Ohio, also a 28-footer. But Armco's job uses pelletized ore, which isn't yet reg-

## HOW INDUSTRY CUTS COSTS WITH PLYWOOD

Here are five examples of how profit-minded management is using fir plywood to improve products, speed construction, streamline handling, cut maintenance and operating costs.



### "Space planes"—an entirely new approach to roof design

This unusual roof exemplifies the space plane—a new design concept from plywood research, and a refinement of the folded plate. Plywood space planes offer distinctive appearance and, compared with other means of achieving the same effects, speed and economy. Architects call them more versatile than any other clear-span technique using wood. Their striking contours are due to components of varying geometric shapes—while those of typical folded plates are rectangular. In both, "plates" lean against each other to create a lid-like roof, needing only edge supports.

The space plane above is a St. Louis church, its roof made of 80 triangular components, some as long as 47 ft., and all prefabricated of fir plywood. The conventional folded plates at the left are at a new motel in Rochester, N.Y. Construction with plywood components was so fast the owners opened three months ahead of schedule.



These systems are logical wher-

ever long clear spans are needed, as in restaurants, schools, and many kinds of commercial buildings. Key to their efficiency is use of large, prefabricated, precisely engineered plywood components. They insure close cost control, keep labor low and quality high. If you have a space plane or folded plate structure in mind, and would like data on plywood components and DFPA's design method for folded plates, please mail the coupon at right.



### Plywood proves a winner for record-breaking racetrack

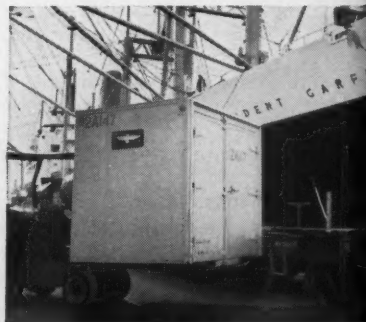
This new fir plywood track in the Portland, Ore. Coliseum has already broken two records: first when it cost only half as much as a standard spruce track, again at its inaugural track meet when a new indoor two-mile record was made (8:34.3). Plywood demonstrates here its capacity as an engineered material to excel at unusual jobs. It was machined to precise sizes and infinitesimal tolerances, especially where wedge-shaped panels at turns had to fit perfectly. Its surface is absolutely uniform. The track offers long-term savings too: it's durable and the large, light plywood components can be demounted or set up in a few hours.

Olympic stars and others who have run on the plywood track like its spring, and call it the "fastest ever." The same plywood qualities that stand out here—

large size, light weight, strength and predictably high uniform quality—make it a logical, low-cost material for other applications, such as basketball courts, auditoriums, arenas, computer installations—wherever floors undergo hard use and heavy loads.

### How to cut shipping costs with big plywood vans

Shippers find this new heavy-duty plywood container equal to or better than metal in load-carrying capacity, lighter in weight, and more economical in the long run. The sturdy, versatile vans are made by California Cargo Container Corp. of Oakland, especially to transport heavy industrial products, canned goods, etc., as well as household goods. They are designed for rail, truck or ship transport, with no unloading en route. Here, one of the 500 vans recently purchased by American President Lines is transferred from flatcar to ship. Michael Rafton of Calif. Cargo says the plywood vans cost far less to make than metal containers, and are easier, quicker and less costly to repair. Sides and floors are Exterior (waterproof) plywood, braced at edges with welded angle iron. Fork-lift channels permit four-way entry.



# DFPA QUALITY GRADE-TRADEMARKED\* PLYWOOD

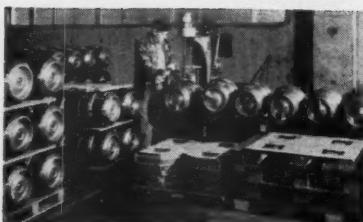
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\* The DFPA grade-trademark on plywood is your assurance of quality and value. It identifies plywood made under the rigid Douglas Fir Plywood Association quality control program. Be sure it is on every panel you buy.



## Plywood pallet and slip-board system saves \$100,000 a year

Special plywood pallets for beer kegs are the key to a new handling system that is saving Blitz Weinhard \$100,000 a year at their Portland, Ore. brewery. With the new pallet and slip-board combination, both kegs and case goods can now be handled with the same crew and equipment. The four-way pallet has an Exterior (waterproof) plywood deck, and blocks with plywood runners. It is unique in its four rectangular holes cut in the deck to allow ring bands of kegs to drop in and keep kegs secure on pallets. Similarly cut plywood slip-boards are used between additional tiers of kegs. The system doubles storage space—empties can be stacked 9-high or higher. Damage to kegs is reduced sharply; and plywood pallets last twice as long as boards.

When used for case goods, they are equally strong and durable, and smooth plywood decks are easy on cartons.

## Plywood tank lining best answer for hot, concentrated acids

At McDonnell Aircraft Corp., St. Louis, plant engineers found high density overlaid plywood the best and most economical material for acid tanks. The plywood-lined tanks, used in the steel chemical machining pilot plant, proved cheaper than metal, lighter weight and

easier to fabricate. The plywood has an exceptionally hard, smooth, damage-resistant surface, achieved by bonding a resin-fiber overlay to panels in the factory under extreme heat and pressure. The McDonnell tanks were used for various mixtures of concentrated acids—HNO<sub>3</sub>, HCl, H<sub>3</sub>PO<sub>4</sub>, and HF—at temperatures up to 150°F. After 16 months they had suffered no leaks or deterioration. Overlaid plywood comes with a medium density overlay too, which is also highly moisture-resistant and takes paint well.



**For more information on fir plywood**—its advantages and applications—or for further details on the uses in these case histories, send in coupon below.

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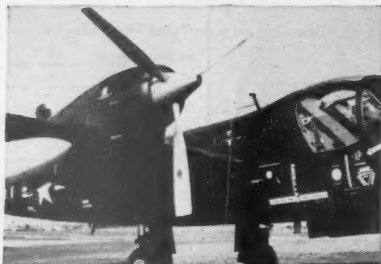
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1. This propeller's epoxy-laminate spinner-deicer was adopted to: (a) cut wind resistance (b) withstand temperature stress-cracking (c) embed heating coils

## How well do you know epoxy plastics?

(The answers may suggest profit possibilities for you)



2. Her steel decks are coated with epoxy to: (a) provide a non-skid surface (b) reduce maintenance (c) withstand sun, temperature changes, and salt water



3. This motor can run immersed in water because epoxy: (a) embeds its coils (b) coats its housing (c) seals its bearings

### ANSWERS

- (b) and (c). Despite rapid temperature changes, it far outlasts metal, saving replacement cost and time.
- (a), (b), and (c). Check them all. Most important—epoxy coatings protect against corrosion.
- (a) Embeds its coils in a hard plastic block that insulates, protects against physical and chemical damage, lets motor run cooler.

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ularly available at Duquesne. And Duquesne's 850,000-ton rating is based on conventional blast furnace practice. In operation, it will so far outstrip conventional practice that it's impossible even to guess its actual rating now.

**Unique characteristics.** Duquesne's uniqueness shows up most vividly in these characteristics:

- It will allow research on top pressures approaching 30 psi.—a level no one now can be sure is possible. U.S. stacks that now use significant top pressure run only 11 to 13 psi.

- It will use blast temperatures up to 2,000F. The U.S. average probably falls between 1,200F and 1,300F.

- It will be equipped to screen the entire burden of ore, stone, and coke to uniform particle size immediately before charging, in screening facilities right at the stack. Ordinarily, U.S. Steel screens these materials at central locations, miles from Duquesne, but handling destroys some of the uniformity. Generally, the more uniform the particles, the more efficient the smelting.

- It will be able to probe the burden at three levels during operation—another industry first. The probes will extract samples of gas and solid materials.

Instrumentation on the furnace will also be able to perform infrared analysis of top gases semicontinuously.

Central recorders will log perhaps 100 sources of data, including some that never have been measured before.

Duquesne's stockhouse from which the furnace is fed, will be tape-controlled, but there will be no computer at the outset. "We don't know yet," says Dr. James B. Austin, research vice-president, "to what extent a computer might be useful. We'll examine the data at a computer center. That ought to show, among many other things, how effective a computer might be."

**Production tool.** Despite the elaborate experiments planned, only the probes and some of the instruments will be charged to the research department. And John Price, Duquesne's general superintendent, must operate it as a production tool under the corporation's standard cost system.

Duquesne's little brother at Universal will make it much easier for Price to produce hot metal continuously at a profit. Universal has all the big stack's capabilities except volume—and some capabilities all its own. Universal can be used to try programs on, say, 1,000 to 2,000 tons

of ore that would take perhaps 100,000 tons at Duquesne. That should save a lot of wasted effort.

## III. The significance

Aside from the sheer addition to knowledge that's impending, ponder what this knowledge will probably mean to steel.

For example, about 85% of our steel-producing capacity is in open hearth furnaces. Today, we have about 900 of them technically available and useful. But they're all on trial for their lives.

From here on, we're going to make substantially all our steel with oxygen, so the industry is facing a \$2.5-billion question: Will steel be made in oxygen converters designed and built as such, or in converters adapted from existing open hearths?

For U.S. Steel, which has not made its decision on which oxygen steelmaking process to follow long-term (although it uses lots of oxygen in open hearths), the right answer to that question might very well repay the entire cost of the Universal-Duquesne project.

**Scrap factor.** Probably forever, steel is tied to a scrap plus hot iron steelmaking economy. Steelmakers must be ready to use at least 40% to 45% scrap. The L-D converter—the only oxygen converter yet operating in this hemisphere—can use only about 30% scrap competitively. That's a tremendous penalty by comparison with the open hearth with its ability to handle charges ranging from 30% to 100% scrap.

A different oxygen converter, the Kaldo process, which claims the ability to handle up to 45% scrap, will make its American debut late next year. It has been operating in France at a 43% scrap rate. Similar success here could have a real impact on whether steel is made in oxygen converters or open hearths adapted to oxygen.

Now, if Duquesne should show that a great deal of additional productivity can be wrung from existing blast furnaces without excessive cost, it would make the L-D converter, which uses more iron and less scrap, more attractive.

Duquesne, of course, will yield more knowledge than this, some of it even more critical. And it will yield hot iron in volumes that will be staggering by comparison with the average U.S. blast furnace.

Actually, it will produce so much, so fast, that it's to have two tap holes. If it had only one, they would have to cast the furnace so often the crews wouldn't have time to reline the iron-runners between casts. **End**

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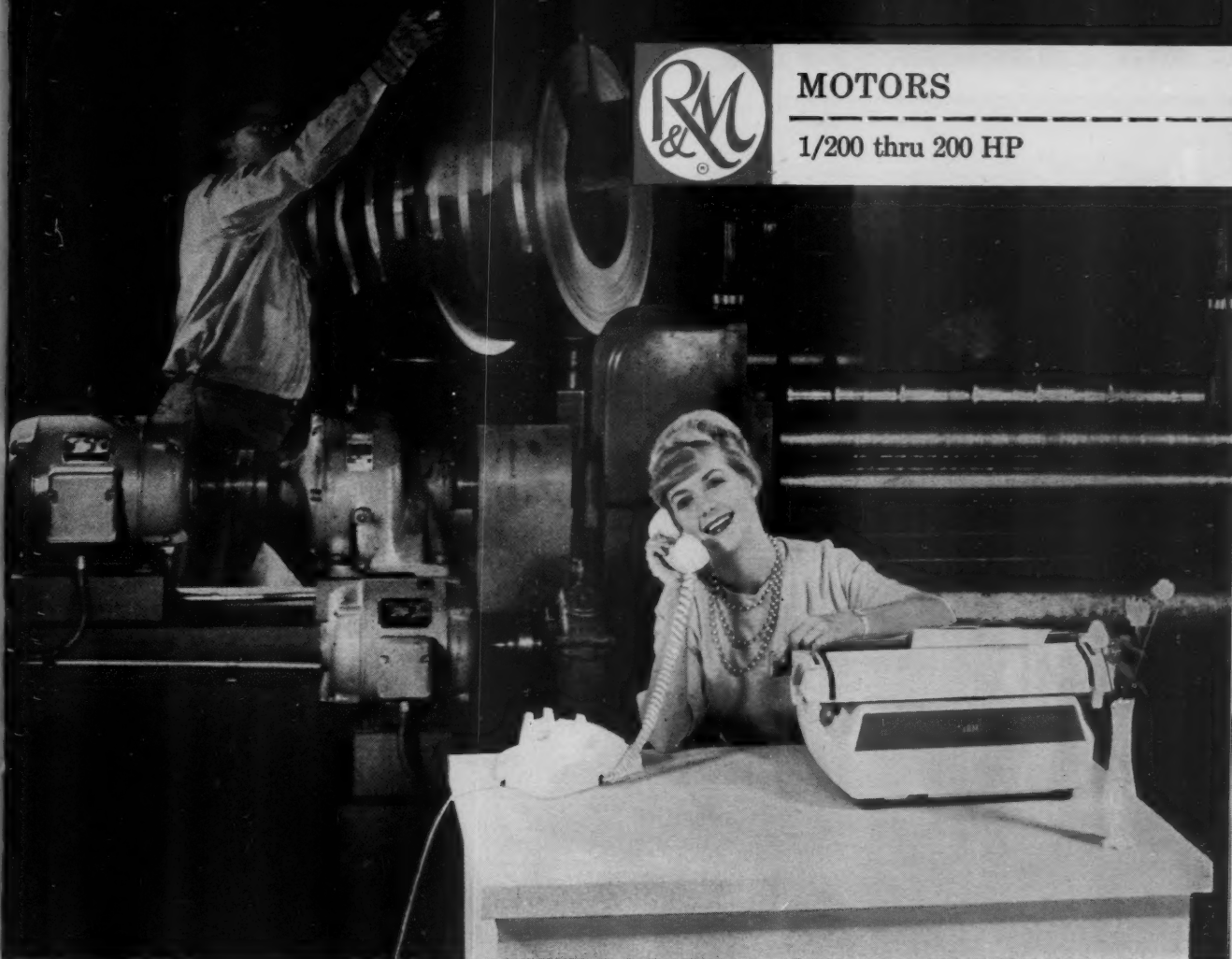
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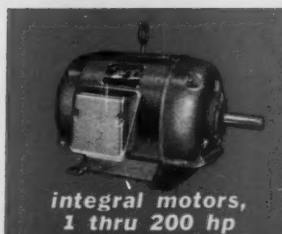


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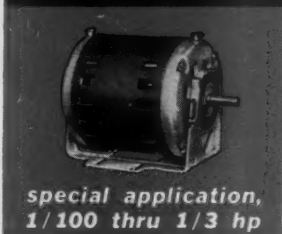
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# Piling up economic evidence

**Since the days of Adam Smith**, almost every generation has had one or two economists whose names and views were known to the broad public and whose opinions on economic policy counted heavily, whether the economist possessed the trappings of office or was speaking just for himself.

One is Paul A. Samuelson of MIT (BW—Feb.14'59,p73), a key Kennedy adviser who preferred to stay in



Burns (above) as president of the National Bureau of Economic Research has years of fact-finding behind his private sallies into the area of public economic policy. At right, the Bureau's top staff members are, left to right: William J. Carson, executive director; Hal B. Lary and Geoffrey H. Moore, associate directors of research, and Solomon Fabricant, director of research. Their aides stand at office doors in the corridor extending into the background.



Cambridge rather than go to Washington.

The other is Arthur F. Burns of Columbia University (cover and left), first chairman of Pres. Eisenhower's Council of Economic Advisers and now (in a role held sharply distinct from his continuous public policy-advising) president of the National Bureau of Economic Research, an austere temple of economic fact-finding and analysis.

**Wholly professional.** Says Burns: "I am not a Republican economist. I am a Republican and an economist."

By this, Burns means that he seeks to use his experience with economic fact-finding and theory in a thoroughly professional way, as little biased as possible by his political affiliation. Indeed, as CEA chairman he was highly regarded, both by his fellow economists (most of whom are Democrats) and by the politicians, for the professional skill and bearing he brought to the job—and for the tough way he stuck to his guns in the face of occasional opposition in high places. Burns demonstrated that a CEA chairman with skill and nerve is by no means necessarily less influential than a senior Cabinet officer.

Burns' battles with Eisenhower's Treasury Secy. George M. Humphrey over fiscal policy are legendary, but his set-tos with other leading Republican figures are less well known. For example, when Burns felt that Rep. John Taber of New York, the wily old chairman of the

House Appropriations Committee, was trying to hamstring CEA, he finally went to Taber and said: "Look here, I came here to do a job. Why are you fighting me? Why are you keeping me from doing that job? If you won't let me do it, I'll quit. I know where my hat is."

Taber heard Burns out, laughed, and said, "Dr. Burns, I like the cut of your jib." Thereafter, Burns had a useful ally in the conservative Taber.

**Still publicly active.** In 1956, Burns did pick up his hat and go back to the National Bureau of Economic Research in New York. But, he says, it wasn't because he had lost a policy battle. It was because he figured it was now or never if he was going to try for some of the professional goals he had set for himself as a young man.

Since leaving Washington, he has continued to play a lively public role. He remains in close touch with Eisenhower and other GOP leaders. He is serving as a public member on Pres. Kennedy's Labor-Management Advisory Committee. He continues to speak out on economic matters in a way that sometimes pleases Kennedy's official advisers but more often nettles them, as in his blast against the "stagnationism" of the current Council of Economic Advisers (BW—Jun.17'61,p34).

Burns is by no means hostile to Pres. Kennedy; in fact, he thinks Kennedy has better economic instincts than his advisers. But he seems to delight in the role of gadfly

and disturber of the New Frontier's intellectual peace.

## I. The National Bureau

In a way, it's strange that Burns ever came to play a major public role. He joined the staff of the National Bureau of Economic Research in 1930 as a 26-year-old graduate student, and the National Bureau was founded on the idea of developing facts and proving economic relationships, in contrast to cheap and easy theorizing and recommending of policy.

The Bureau was launched in 1920 as the outgrowth of a 1917 group called The Committee on the Distribution of Income. To guard its objectivity, all of its findings are reviewed by a board of directors representing every shade of political opinion. This elaborate review process can almost drive an impatient or prima donna economist out of his mind, Bureau people agree.

In his last annual report in 1945, Wesley C. Mitchell (picture, page 62), the intellectual leader who created the Bureau's grand design for virtually all its research in the past 40 years, noted that this system "takes time, costs considerable money [the Bureau now spends more than \$1-million a year, chiefly to support a staff of 111], and taxes patience severely."

New staff members, he said, "often become restive under the numerous suggestions and criticisms offered them." But, he added, "men whose





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scientific bent is stronger than their conceit realize that their insight is clarified by being compelled to look at their problems from many angles, uncomfortable as the experience is."

**Mum on politics.** Mitchell believed in "our self-imposed rule against expressing opinions on public policy," and he applied it to his own career. Burns, who saw Mitchell almost daily from 1930 until his death in 1948, says, "I would be at a loss to tell you how he voted."

Yet Mitchell had no lack of strong social or political interests. At bottom, he was a reformer, says Burns; he had faith in private enterprise as a system but, Burns adds, "Socialism didn't scare him." His detachment from open expression of social or political views was based solely on his dedication to a different task: changing economics into a science from a set of impressions, prejudices, and moral beliefs.

## II. Two great works

When Mitchell became research director in 1920, he launched two broad studies on which most of the Bureau's work has been based to this day:

- The concept of national income, expressed in the gross national product system of national accounts.
- The study of business cycles.

**The GNP system.** Few laymen realize that the GNP system of national accounts, used virtually all over the world in economic analysis and policy planning, has grown from nothing in one generation. It was developed in the 1920s and early 1930s, particularly through the arduous and imaginative labors of Simon Kuznets.

In 1932 the U.S. Senate directed the Commerce Dept. to report on the Bureau's national income work; Kuznets was lent to Commerce to head the study. The first official national accounts anywhere in the world appeared in 1934, covering U.S. National Income, 1929-32. Thereafter, Commerce took over, as routine, the job of calculating these data.

When the U.S. entered World War II, it had detailed estimates of national income for 20 years. Said Mitchell: "Only those who had a personal share in the economic mobilization for the First World War can realize in how many ways and how much these basic figures facilitated mobilization for waging war across two oceans."

National income analysis has since proved its equal usefulness for policymaking in peace.

**Business cycles.** Mitchell had laid

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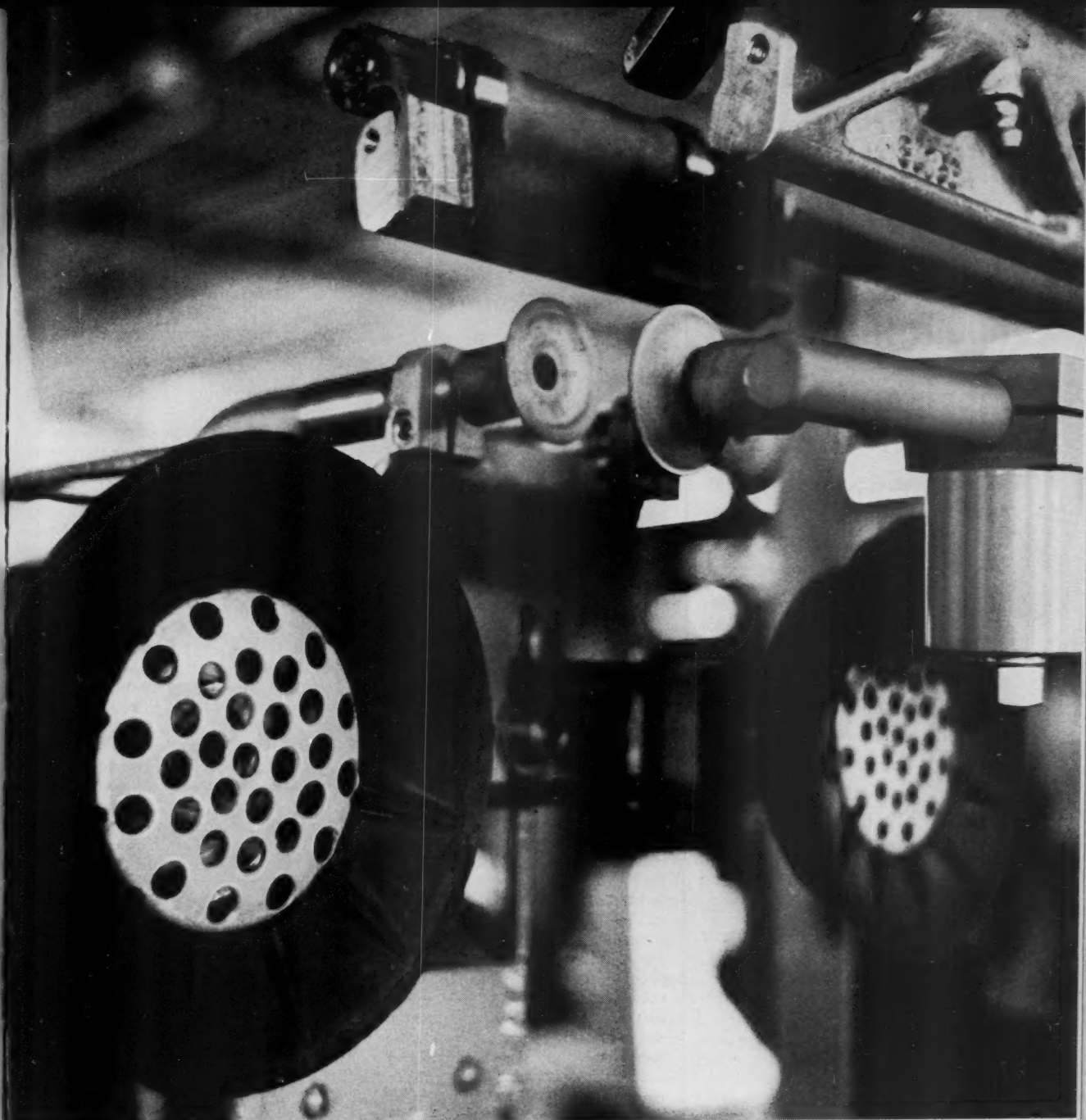
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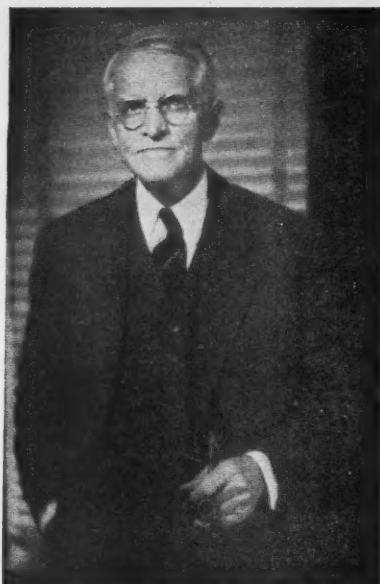
The only sure comparison in finance lease plans is: who can buy new cars for less, sell used cars for more? Only Hertz has the extensive nation-wide marketing facilities, experience, and skills to get maximum return, anywhere and everywhere, for the big multi-car user. That's why more and more of these companies are now equipping their men with brand-new Chevrolets, Corvairs, or other fine cars, under a Hertz 25-PLUS Finance Lease Plan. (Note: Many companies find a Hertz Full Maintenance Plan—profiting from America's most complete leasing operation—is best for their needs.) Use coupon below for preliminary facts about all Hertz Fleetcar Leasing Plans.



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COMPANY \_\_\_\_\_  
ADDRESS \_\_\_\_\_  
CITY & STATE \_\_\_\_\_  
NUMBER OF CARS OPERATED \_\_\_\_\_



**Wesley C. Mitchell, 1874-1948**, built the National Bureau's work and dedication to fact-finding on his own ideas and dedicated personality.

the groundwork for the Bureau's second great enterprise with his 1913 book called *Business Cycles*, of which the foremost historian of economic analysis, the late Joseph Schumpeter of Harvard, said: "It was his masterpiece in both of this word's original meanings—the piece of work by which the medieval journeyman proved himself to be the master of his craft and the code that embodied the law of all the work that was to follow."

This book, which has influenced practically all of the Bureau's studies, sought to show how money binds together the elements of a capitalist economy. Current prices and costs, Mitchell said, constitute a system of delicate but imperfect responses to past disturbances and are themselves the cause of future disturbances. The roots of the business cycle are in this nervous system of the economy, especially in such elements as cost-price relations, rate of profit, and businessmen's expectations of profit.

Mitchell, a skeptic and pragmatist, wanted proof that this was so. He set to work with a growing staff of Bureau associates to measure all aspects of the system's behavior. One of his lieutenants and collaborators was Burns.

## III. Creative criticism

Burns brought to the Bureau his own special brand of skepticism. Some economists today fault him on

creativity, but most agree on the keenness of his critical powers.

Burns doesn't deny his critical bent. When he and Mitchell worked together, he recalls, he would pick up someone's report, take it apart sentence by sentence and phrase by phrase, and leave it a battered mess expiring on the floor. Mitchell, he says, would pick it off the floor with the remark, "Arthur, everything you say is so, but this man nevertheless has something to say," and would patiently breathe life back into it by discovering its positive values.

Burns, however, defends the critical function as also creative. "To criticize anything," he says, "you first have to love it."

**Two projects.** As a positive contribution, he hopes to do two more books before he is finished.

One book would be a theoretical study summing up the detailed work on the business cycle done by Mitchell, Burns, and other Bureau men. As the Bureau's research director, Solomon Fabricant, sees it, Part I of that enterprise began with Mitchell's 1913 book, the hypothesis that was to be tested; Part II consisted of the 1946 work by Burns and Mitchell, entitled *Measuring Business Cycles*, along with other Bureau studies; Part III would seek to reach firm and tested conclusions drawn from the original theories and the subsequent research. It now exists only in embryo in essays and paragraphs of both Burns and Mitchell. Burns is working with Geoffrey H. Moore, the Bureau's associate research director, on a study of the postwar business cycle that they hope will go at least part way toward presenting some fundamental explanations.

Burns' other major book would cover economic policy, combining the fruits both of his factual and analytical studies and of his practical experience in policymaking since 1952, when he left the National Bureau cloisters and stepped into the political arena.

## IV. His economic creed

In the area of policy, Burns cannot easily be categorized. On the one hand, he stirred economists right after the war, when the prestige of John Maynard Keynes was at its peak, by a sharp attack on "the Keynesian thinking of our times." On the other hand—a favorite Burnsian phrase, usually repeated for emphasis—he was accused by fellow economists of recommending Keynesian policies as soon as he was installed as CEA chairman by Eisenhower, whom he had come to know



## GREEN PASTURES FOR ELSIE

Few cows have ever had it quite so good as Elsie. Surveying the world from her private pasture in upstate New York, she has seen the Borden's line broaden to include 1000 different products. The food packages alone sell at the rate of 3½ billion a year.

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while Eisenhower was president of Columbia.

Burns concedes that he did in fact use a Keynesian approach to counteracting economic swings toward recession or inflation. However imperfect it might be, he says in effect, it was "the only wheel in town." Besides, in his scholarly works, he was attacking not so much Keynes' own work over a long career as the vulgarization of his late work on depression and unemployment, which Keynesians sought to turn into a theory of the business cycle.

The result, Burns felt, was a relatively crude model of the economy that left out of account the really crucial elements in the cycle: the way costs, prices, and profits adjust to cause both upswings and downswings. By neglecting these elements, he held, Keynesians underestimated the regenerative powers of a free economy, put too much weight on the role of the government.

**Sense of timing.** Burns felt, too, that the Bureau's work had given him a sense of timing in execution of economic policy, a sense that the Keynesians lacked and without which government intervention might stimulate inflation or break the back of an expansion.

Toward the end of the 1954 recession, for example, Burns foresaw a vigorous recovery and felt that tax reductions already under way were adequate. In 1956, however, he detected signs that the economy was faltering, and he fought unsuccessfully for a significant tax reduction. He blames the economy's sluggishness and instability in the last few years both on the excessive tax burden and on the poor timing of monetary and fiscal policy shifts.

**Liveliness.** Burns infused a modernity and a liberalism into the Economic Reports of the President, whose final form he wrote entirely by himself. He worries about the GOP's drift toward conservatism and dullness but also has misgivings about the Democrats. He says he longs for the day when we may get "a Democratic Party with some understanding of finance or a Republican Party with some imagination."

**Growth stimulation.** Burns and, in its still nonpolitical way, the National Bureau are turning their attention increasingly toward the problem of stimulating the nation's economic growth.

Burns considers that the government should play an important role not only in promoting economic stability through its fiscal and monetary policies (which is what makes him essentially Keynesian) but also in promoting economic growth. The

question that separates him from Kennedy's economic advisers is how big this role should be.

"Governmental actions to spur economic growth," says Burns, "are most likely to be effective when they increase confidence in the economic future, thereby stimulating people to use their own brains, energy, money, and credit in building today for a better tomorrow."

**Tax reform.** Burns feels we need a fundamental reform of our tax system to improve the climate for enterprise and investment. Of the many specific reforms he thinks necessary, he singles out two as especially important:

- A reduction in tax rates on personal income, to increase incentives to constructive activities and to reduce the waste of energy on tax avoidance schemes.

- Revision of tax rules on depreciation, to take realistic account both of our technological revolution and of inflation.

**The industrial side.** Burns feels, too, that it's important to expand the national effort that's devoted to basic education and scientific research. He urges extensive training programs for unskilled workers, particularly in rural areas, and also for workers whose skills have become obsolete.

He favors a big push to increase industrial productivity, with perhaps a technical assistance program for small companies and backward industries. He suggests that the nation's business schools might give small businesses the same kind of help agricultural colleges have been giving the farmers over the years.

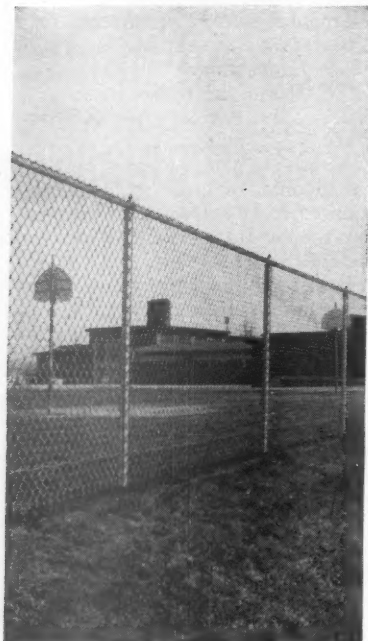
**Other side of coin.** While using the government to promote growth by certain policies, Burns would also check the government (or industries or unions) when they indulge in anti-growth policies, such as much of the government's farm program.

He sees the objectives of growth and stability as closely intermeshed—when you solve either of these problems, he feels, you go a long way toward solving the other.

Burns' views on these points are really not too remote from those of the leading economic brain on the Democrats' side, Paul A. Samuelson (who is now president of the American Economic Assn., a post held by Burns two years ago).

A shrewd economist who is a good friend of both men observes that Burns and Samuelson "have circled each other like a couple of good professional boxers, without personal animosity and fully respectful of each other's power in both left and right hands." **End**

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## MARKETING

# New way to size up how consumers behave

So-called dynamic research depends on eliciting the natural responses of consumers in a group, in contrast to probing of individual in motivation research

As the cartoons at right suggest, marketing research has taken a new turn. The spotlight is still on that most mysterious and confusing of creatures, the consumer. But the consumer has been raised from the analyst's couch and has been encouraged to make like a method actor for the benefit of the marketing researcher.

The earliest marketing research in the 1930s used the direct statistical approach. It assumed that if you ask people straight questions, they would give you straight answers; the main problem was to ask them of a sample of people who accurately represented the whole market.

In the late 1940s, motivational research, based on the techniques of individual psychotherapy, came into popularity as a way of eliciting consumers' true buying motives—what they think, rather than what they say they think.

**Freudian method.** For more than a decade, this method has been the last word in how to understand the consumer. It assumed that the key to consumer behavior lay buried deep in the subconscious, waiting to be dug out by Freudian psychoanalysis. Lately, though, skepticism has grown among researchers about the validity of this approach.

"Sometimes," says Pres. Albert Shepard of Motivation Dynamics, Inc., in Peekskill, N. Y., "the deeper you dig, the higher you pile it up." And Wroe Alderson of Alderson Associates, in Philadelphia, comments: "The Freudians have been going after motivations deeper than are needed for marketing purposes. The greatest value of motivational research is to get people to try a product—but they'd surely better be able to continue to buy it on a rational basis."

**Dynamic research.** The new dynamic research method developed by these men and other groups such as Opinion Research Corp. in Princeton

and Marplan, Inc., in New York has evolved from the more recent techniques of group psychotherapy.

It stresses observation of people in real or simulated consumer situations instead of probing their psyches on the psychoanalyst's couch. Says Shepard: "These days we're more interested in motivations between the aisles of a supermarket than motivations between twin beds."

It concentrates on how consumers interact with each other, less on how they react as individuals to the idea of a product or a service. The motivational researcher might find, to use a famous example, that a man wants to buy a convertible car because it makes him think of a mistress. The dynamic researcher will warn that the man will probably wind up with a hardtop as a result of a compromise in his family.

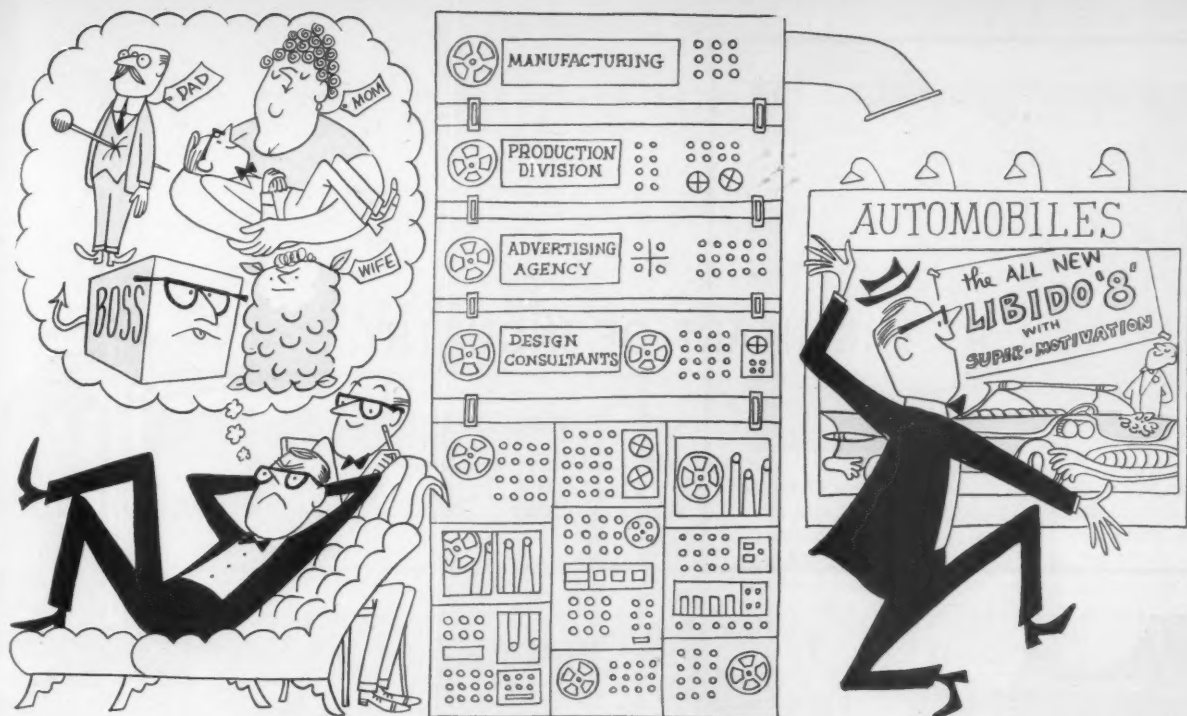
Dynamic research removes the researcher from the stage, to observe how people act rather than to probe into their personalities. The hidden persuader has become even more hidden, and less persuasive.

**Broader view.** The perspective has thus broadened. For example, General Foods Corp. has replaced the usual new product study by asking to find out what new foods people would like, then telling the laboratory to come up with them. And at the other end of the process, Alderson Associates is investigating how consumers actually consume, instead of just how they buy.

Some new assignments are even carrying the researcher out of the marketing field altogether, as in an exploration of patient-doctor relations for general practitioners, a study of the significance of leisure time for movie theater owners, or the formulating of new political policy (BW—Dec.3'60,p34).

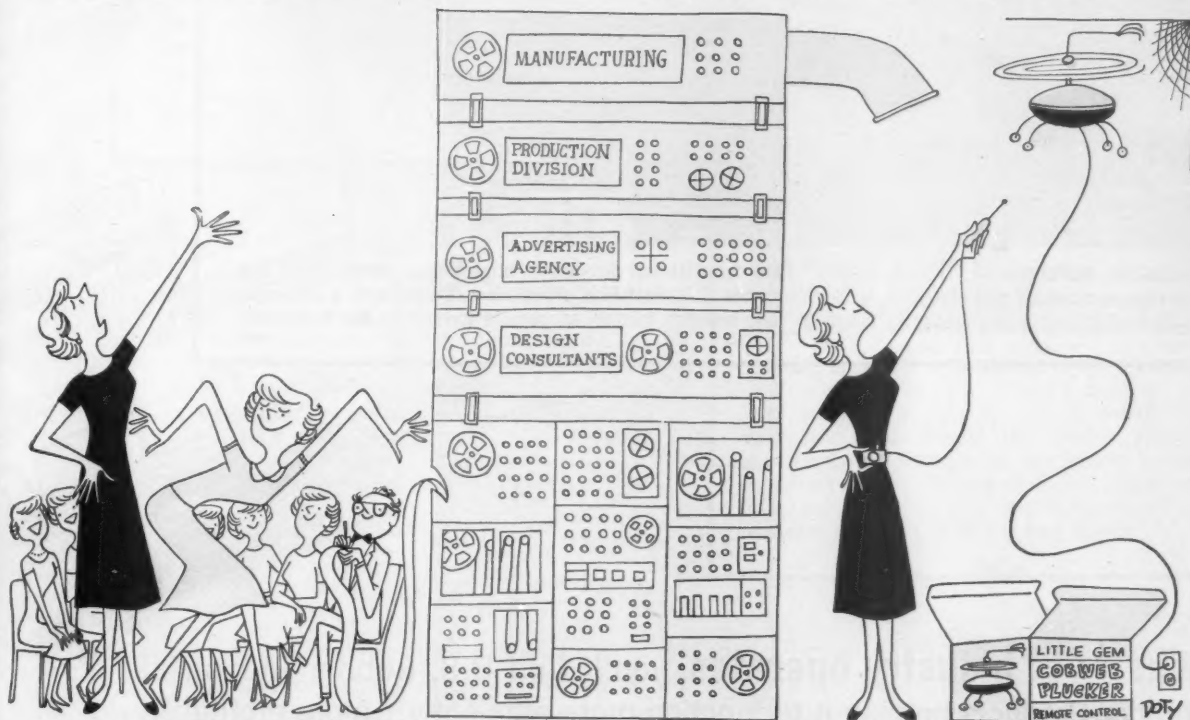
Many research outfits now work on a year-round retainer basis as consumer consultants, rather than contracting to help with specific prob-





Freudian technique in motivational research in effect puts consumer on the psychoanalyst's couch, probes his psyche

The new dynamic research method encourages consumers, in group discussion, to volunteer their ideas on products



lems from time to time. Motivation Dynamics, for example, had a continuing contract with Wagner Mfg. Corp. of Milwaukee "to maintain consumer reconnaissance."

**Different approach.** Critics of motivational research say it works toward getting the consumer to give the right answers to a set of questions built on a preconceived notion.

Dynamic research, in contrast, shuns making assumptions in advance, tries to get consumers to volunteer their ideas unwittingly.

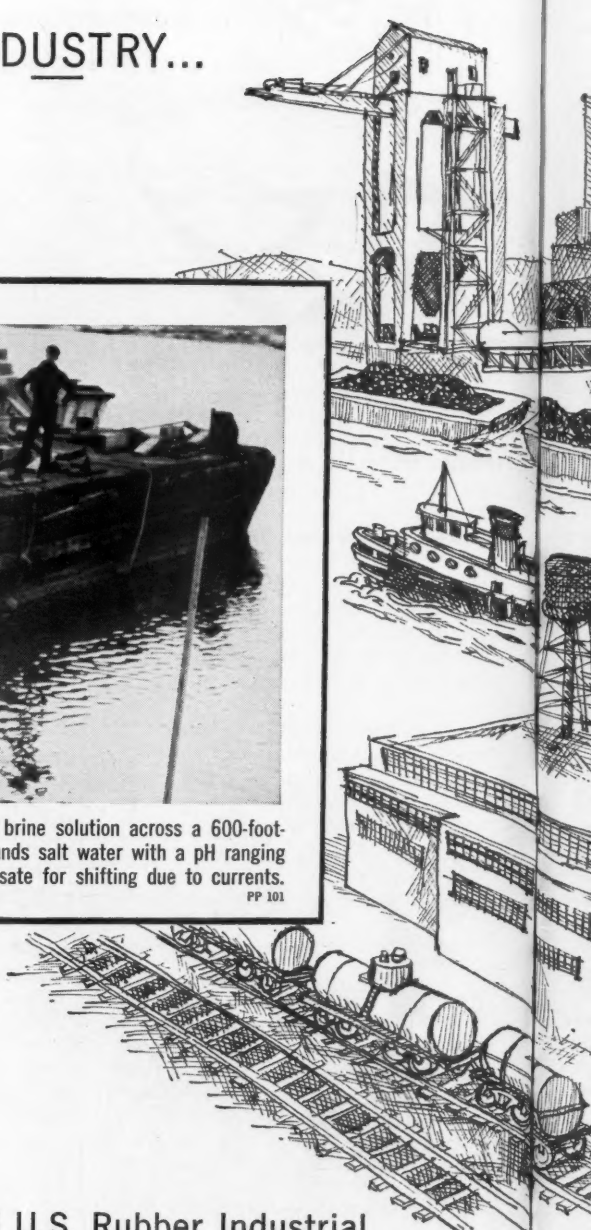
In an interview with a group—

● AT THE HEART OF INDUSTRY...



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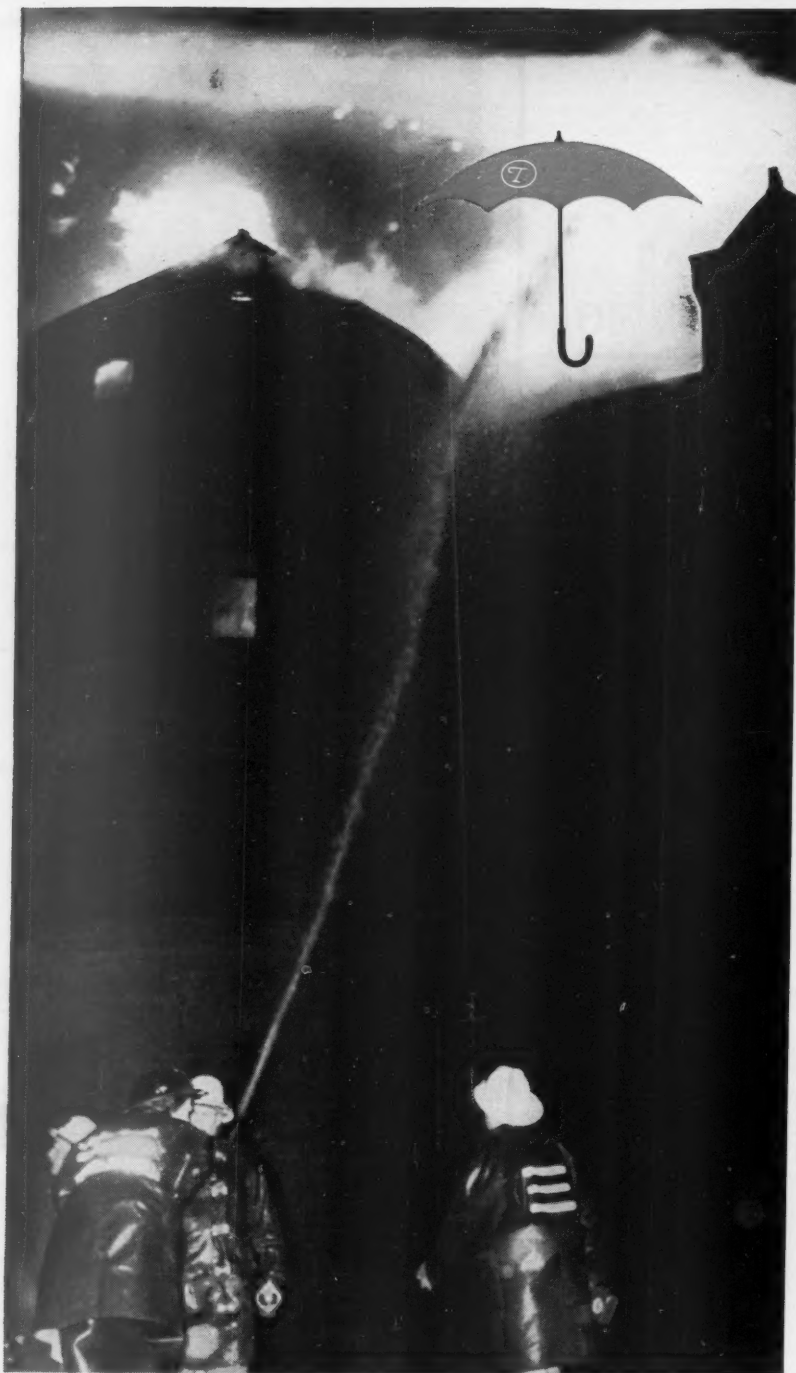
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## Unguided responses become the basis for formulation of hypotheses by researchers . . .

Story on page 68

and dynamic researchers work mainly with groups—the questioner will give only the gentlest nudge toward his specific problem. If his problem, for example, is to find out how housewives feel about cooking their own soup, he will start by asking a group of homemakers what kind of cooks they are. Then he will settle back and hope that soup is mentioned in the conversation. He may have to wait patiently while everything else, including the kitchen sink, is discussed first.

This caution against directing the discussion is vital, the dynamic researchers say. They contend that it was a failure to perform this undirected preliminary research that led to the fizzle of Ford Motor Co.'s Edsel—which, ironically, was heralded as the car that motivational research designed. Edsel research started with preconceptions about the medium-priced car market that failed to hold true in the shifting auto market of the mid-1950s.

The unguided responses developed in the free-wheeling interviews become the basis for the formulation of hypotheses by the researchers—after, not before, the interviews. Further work in proving or disproving these hypotheses often involves the use of standard motivational research techniques. However, Opinion Research Corp. reports a strong trend among clients to regard the hypotheses themselves as the end product of the study and to be satisfied with them as a guide to management policy.

**Group practice.** Dynamic research relies for direction and impetus in group interviews on the stimulus of people on each other in a discussion. Researchers say this situation comes closer to the reality; women discussing homemaking as a group, they claim, react much more naturally than each woman would in talking alone to a psychologist.

Alderson Associates favors interviews with actual family groups in which the members discuss some major purchase, such as a new car, just as they would if they planned to make such a purchase. It means a lot to an auto maker, Alderson points out, to find out in this way who really wears the pants in making the decision.

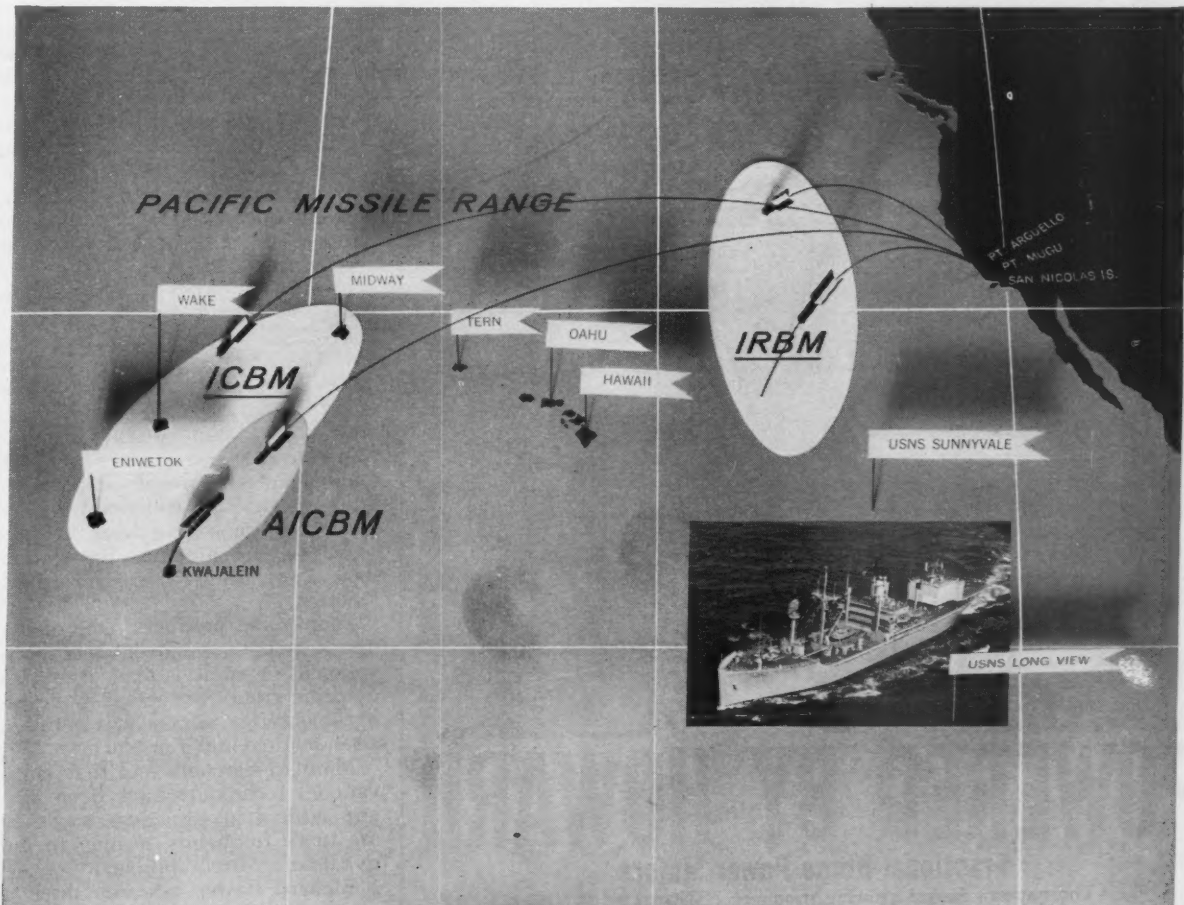
Role-playing and simulation,

## How Bendix helps to advance U. S. missile, space programs in vast Pacific operations

What you see here is the U.S. Navy-managed Pacific Missile Range (PMR)—sprawling "home" of one of this country's most important missile and space task forces. It stretches from the California coast to the far Southwest Pacific. This immense "shooting gallery" provides facilities for launching, tracking, and testing guided missiles—also for launching and tracking polar-orbit satellites and deep space probe vehicles. Significantly, most installations are mobile to meet changing operational needs. ● It takes specialized technicians to operate and maintain the extensive line-up of PMR installations. A great many of these specialists come from the Bendix Radio Division, a down-range technical contractor for the Navy. As the map shows, Bendix and Navy personnel combine to provide the needed talents at island

sites as well as aboard two satellite-recovery ships. ● Prime Bendix operation and maintenance responsibilities include shipboard radar, communications of all kinds, and combat information center flight controllers. At several MILS (missile impact-location systems) sites, Bendix specialists operate and maintain electronic instrumentation to detect the impact, and measure the accuracy, of ICBM's. Other Bendix-manned installations include telemetry equipment to pick up data from deep space probe vehicles, and equipment to track Discoverer series capsules for recovery purposes.

Five ranges make up the complex Pacific Missile Range. Three of them are shown here: ICBM (Intercontinental Ballistic Missile); AICBM (Anti-Intercontinental Ballistic Missile); and IRBM (Intermediate Range Ballistic Missile). Besides its island network of electronic instrumentation, PMR employs ships and aircraft. Pennants indicate installations manned by Navy-Bendix teams.

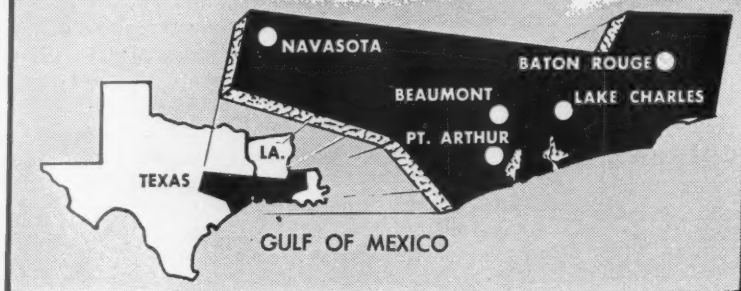


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standbys of group psychotherapy, are also used to get at what people really think. An agency may, for instance, give people stage money to "spend" on various products; this can provide a more accurate gauge of the pulling power of ads it is testing. Opinion Research Corp. regularly uses simulation in dealing with children's preferences; it got "awful" results from straight questioning about cereals but just what it wanted when the children were asked to "act out" breakfast.

In another study, ORC workers watched through one-way windows while men inspected sports jackets. They wanted to find out how customers approach such a potential purchase, whether they look first at the tags or feel the material or heft the cost to check its weight.

To check the realism of its simulated store, ORC ran a control test in a Sears, Roebuck & Co. store that showed customers followed the same routines in each case. Most researchers, however, favor using a minimum of props, on the ground that these tend to influence people in the test groups.

**Some reservations.** Some researchers are lukewarm about the dynamic research techniques. Dr. Lee Rainwater of Social Research, Inc., in Chicago complains that the interviewer cannot control the group and that results are especially poor in an artificial group where the members don't know each other.

Artificial groups often give unsound results, many researchers agree. They say the best results come where group members know each other but in an antagonistic relationship, such as in a mixture of labor and management people or in a mingling of races or religions. Under conditions such as these, people seem to find a safe arena for venting their antagonisms—and their truest feelings.

**People and products.** One of the impeachments of conventional motivational research is that it misses dynamic group interaction by developing only the relationship between an individual and a product.

Many researchers feel that motivational techniques have been misapplied in many situations, and they are more frequently turning to the dynamic research approach.

Richard Baxter, research director of advertising agency Cunningham & Walsh, Inc., thinks that along Madison Avenue the fad for Freud is starting to fade.

"After all," he comments, "Freud dealt with the abnormal personality, but the person we want to understand is the average consumer." **End**





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from left:  
James J. Ling  
Chairman of the  
executive committee.

Robert McCulloch  
Chairman of the Board

Gifford K. Johnson  
President

Clyde Skeen  
Executive Vice-President

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COMMUNICATIONS  
AND CONSUMER PRODUCTS



# New voice for the conservatives

**Wealthy Kansan hopes to start a newspaper that will give the nation's capital a slant he and his associates consider lacking in the morning paper field**

Ever since the ultraconservative voice of the Washington Times-Herald got drowned with its sale to the liberally inclined Washington Post seven years ago, the conservative end of the political spectrum has talked about getting its side of the news to Congressmen and officials.

Rightly or wrongly, conservatives believe that government decisions are influenced by what officials read at the breakfast table. Executives and legislators are likely to get first word on many controversial subjects in the form and emphasis decided by the Washington Post. True, they also have the moderately conservative Washington Star and the frankly conservative Scripps-Howard Daily News. But these are evening papers. The Post arrives for breakfast.

The major stumbling block to hopes of a new morning newspaper has been financing—or lack of it. Studies suggest it would take up to \$16-million just to get a paper going.

Now a new Lochinvar has ridden out of the West (Wichita) and has begun putting together an editorial team to challenge the Washington giants. He is Willard W. Garvey, head of Builders, Inc., a successful builder of low-cost housing in Peru. His family built its wealth on grain storage bins and elevators, grain farms, Kansas oil, and real estate.

Garvey's beginning sights are modest—a weekly newspaper magazine of tabloid size, probably to be called the World. A 16-page “preview” issue is to be published this fall, with regular production to follow. Neither Garvey nor the nucleus of the staff he has hired will look beyond that. But they hope to work up to a morning daily.

**Scope.** While Washington is expected to provide the bulk of the initial circulation, the paper will be designed as national, rather than local. Present plans call for it to appear on newsstands along the eastern seaboard.

Garvey says his forte is organization and administration. He readily admits to a woeful lack of publishing experience. He did study journalism a bit at the University of Michigan. And in the last few months he has had part ownership of Wichita Week (circulation 5,000).

His mission, he says, is to provide information and commentary that—while not generally disseminated at present—people should have available to form views on foreign, domestic, economic, and political developments.

Garvey has had advice from such persons as Frank C. Waldrop, an editor and part owner of the Times-Herald; David Lawrence, nationally syndicated columnist and owner of the weekly U. S. News & World Report; and Martha Roundtree, producer of television news panel shows, radio commentator, and publisher of Know the Facts, a pocket-size magazine.

He denies that he is attempting to offset the “liberalism” of the Washington Post, although he has some criticisms of that newspaper's editorial policies. But those cheering him on frankly deplore the Post's news emphasis, editorial policy, and influence.

**Chief aide.** Key figure is Ralph de Toledano, freelance columnist and one-time national affairs writer for Newsweek, who has signed on as Garvey's editor on a “temporary” basis. An arch anti-Communist, he says the World's tenor will be conservative.

Yet he emphasizes that the new publication will not be another Times-Herald, with its overtones of sensationalism and isolationism. “If we just lay out the facts, that will be O.K. We don't have to load them.”

The Washington rumor factory is busy relaying, and probably magnifying, the money to be sunk into the venture. Garvey talks more modestly. Plainly he has no intention of taking an initial multimillion-dollar plunge.

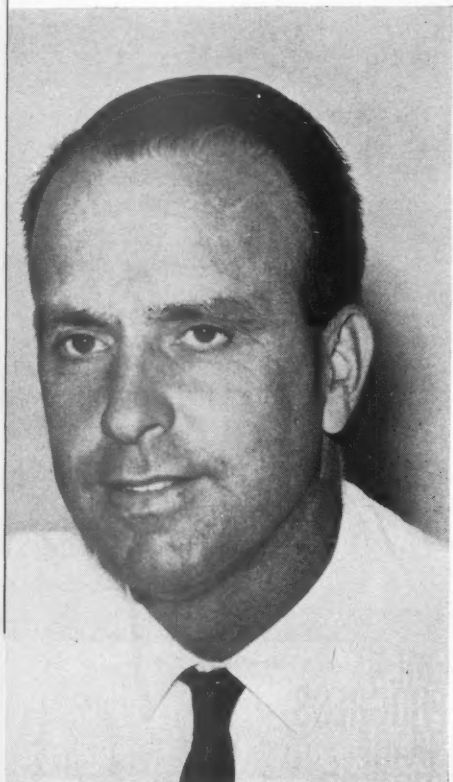
In recent weeks, Wiley T. Buchanan, State Dept. chief of protocol in the Eisenhower Administration, offered \$15-million to buy the Star, and was turned down. The Star (circulation over 279,000 evenings; 297,000 Sundays) enjoyed dominance during most of its 100-plus years in Washington. But since the Post took over the Times-Herald, the Star has been running second. The Post's circulation now stands at about 403,000 mornings, 457,000 Sundays.

The Post generally supports the Democratic Party (although it endorsed Eisenhower in 1952).

The Daily News (circulation 179,000) is an afternoon tabloid.

**Gaining.** All three are growing in circulation, advertising and ad rates.

To Garvey, this picture of his competition must be formidable. But he harks back to his father, who, he says, looked at a field, wondered why no one else was there, and went in himself. Garvey declares he would rather someone else make this particular effort. Lacking the someone else, he's determined to try. **End**



**Willard Garvey** seeks to plant a conservative journalistic seed in Washington.

# Now...Time for the Boys



## Electrical Problems No Longer Short Circuit Our Family Fun

Sure, a father should be a pal to his sons . . . and, mine are at the age when they need and appreciate my companionship most. But when you're lucky enough to be employed at an assembly plant that's doubled capacity twice in the past eight years, you've got more than a full time job . . . and family activities frequently have to take a back seat.

During these eight years I've come up through maintenance to Assistant Plant Manager. It started when I suggested we replace certain troublesome motors with silicone insulated units. Then, when we doubled our plant the first time, I suggested we could double our electrical load capacity in the same floor space by using silicone insulated transformers. Just before our last expansion, my boss was made Plant Manager and I moved up to his assistant. He's taught me a lot . . . and I think I've helped

him. We're a good team. And, for the first time since I started working, I'm finding time to really enjoy my boys. By the way, the car we're restoring is a Model A. No, not a Ford . . . a Dusenbergl.

I think my progress is the result of plenty of hard work and a good eye for new and better ways of doing things. One of the most important things I've ever read was an advertisement on Dow Corning silicone insulation for electrical transformers and motors—just as you're doing now. I wrote for more information. Why don't you?

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# Spotting shifts in Fed policy

**By studying the Fed's weekly statements and the net reserve position of the banking system, businessmen can detect changes in the Fed's regulation of the money market**

The most pervasive administrative power that Washington wields over U.S. business rests in the hands of the Board of Governors of the Federal Reserve System. The Fed controls the flow of credit into the economy. The way it turns the faucet can be one of the most important of the many factors that determines business activity.

Since 1951, Fed policy has moved, like a pendulum, from tight to easy money and back again in response to economic changes. Every time business has picked up, the Fed has moved to put on the brakes.

**New considerations.** Now the economy once again is rebounding from a recession. If past practice were to apply again, the Fed soon would be putting a stiff curb on credit. But two new factors may make the Fed slower to act this time:

- The inflationary potential in the economy—as the Fed sees it—is less than at any time since 1945.

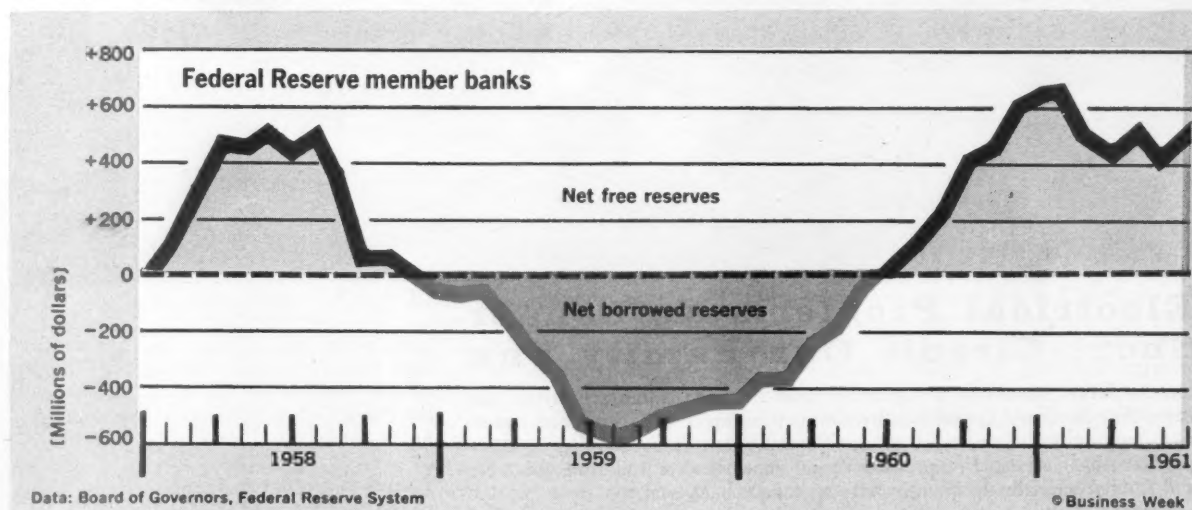
- International considerations have taken on a new dimension in Fed policy. In the recent recession, for example, the Fed kept short-term rates from dropping below 2%—in

1957-58 rates dropped below 1%—in order to prevent an outflow of funds.

For the most part, the nation's money managers operate subtly—by buying and selling government securities in the open market. At times, its action is merely “defensive” to keep the market operating smoothly; but it also takes “dynamic” action to influence the availability of credit and the level of interest rates.

Business Week has prepared the following guide to the Federal Reserve as an aid in understanding its operations.

## 1 Squeeze or ease?



The best indicator of Fed policy is the net reserve position of the banking system (chart). It reflects whether the Fed is buying government securities to ease credit or selling them to squeeze it.

By law, banks are required to hold a portion of their assets as a reserve against deposits. The Fed's open market operations have a direct impact on these reserves.

When it buys a government security, it pays with a check drawn on itself. This check is deposited in a

member bank, and eventually is added to that bank's reserve account, increasing the credit base. Similarly, when the Fed sells it gets paid by check, which is subtracted from a member bank's reserves, shrinking the credit base.

**Check on loans.** In this way, the Fed also keeps a rein on bank loans. Required reserves go up whenever loans—and demand deposits—are increasing, and go down when loans are decreasing.

This net position can be either

“free” or “borrowed.” When reserves are free, as they are now (chart), it means that the banking system—though not necessarily every member—has more in reserves than required by law, and that reserves, moreover, exceed borrowings from the Fed. Conversely, when the net position is negative, it means that banks not only do not have enough reserves to go around, but also are required to operate, at least in part, on reserves loaned by the Fed.



## 2 How to read the Fed's weekly statement

Averages of daily figures [millions of dollars]

### What adds to reserves

#### Credit granted by the Federal Reserve

	Week ended July 5, 1961	Change from week ended June 28, 1961
U.S. government securities bought outright	27,274	+457
Bankers acceptances bought outright	36	- 1
Loans from the Federal Reserve to member banks	48	- 33
"Float"	1,202	-177
<b>Total Federal Reserve credit</b>	<b>28,568</b>	<b>+249</b>
Monetary gold stock	17,550	+ 17
Treasury currency outstanding	5,433	- 1

### What uses up reserves

Currency in circulation	32,480	+278
Treasury cash and deposits with Federal Reserve banks	825	-203
Other Federal Reserve accounts [including foreign]	1,557	+ 54
<b>Total uses of reserves</b>	<b>34,862</b>	<b>+129</b>
<b>Member bank reserves</b>		
On deposit at the Fed	16,689	+136
Held as vault cash	2,353	-197
<b>Total member bank reserves</b>	<b>19,042</b>	<b>- 61</b>
Required member bank reserves	18,512	+ 21
Excess reserves	530	- 82
<b>Free reserves [excess reserves less member bank borrowings from the Fed]</b>	<b>482</b>	<b>- 14</b>

Data: Board of Governors, Federal Reserve System

© Business Week

The weekly statement of Federal Reserve operations, published in leading newspapers every Friday morning, gives a quick picture of what has been happening in the money market during the previous five business days. By studying it, you can see the interplay of forces that determine the net reserve position of the banking system.

The Fed, of course, is not the only factor influencing bank reserves. Changes in the gold stock, public demand for currency, and the efficiency of the banking system in collecting outstanding checks also affect reserves. They must be taken into account by the Fed in its open market operations.

**Two types of operations.** To understand monetary management, you have to grasp the difference between the two types of operations. "Defensive" moves attempt to offset money market factors over which the Fed has no control. "Dynamic" moves aim at influencing directly the state of the money market.

Even so, the Fed may implement a policy decision simply by doing nothing—for example, by failing to

offset an accelerating outflow of gold. But by reading the Fed's statements regularly, you can get the drift of policy.

Look at the week ending Wednesday, July 5. During the four-day period—one day was lost due to the holiday—the Fed was a heavy buyer of governments. On the average day that week, in fact, Fed holdings of U.S. governments were \$457-million higher than the week before.

**Balancing act.** From this, you might conclude that the Fed's policy of ease was getting even easier. But this wasn't the case.

There were several factors contracting bank reserves:

▪ "Float" was down \$177-million. This means that credit that the Fed automatically extends on checks in the process of being collected dropped by \$177-million. The Fed has no control at all over the amount of "float," which depends on how fast checks are returned to the bank on which they are drawn.

The Fed allows banks that receive checks to take credit for them after a waiting period of one or two days—the normal time it takes the receiv-

ing bank to return the check to the bank on which the check is drawn. But sometimes checks are not returned within the prescribed period. As a result, the receiving bank has credited such "floating" checks to its reserve balance before they have been subtracted from another bank's reserves.

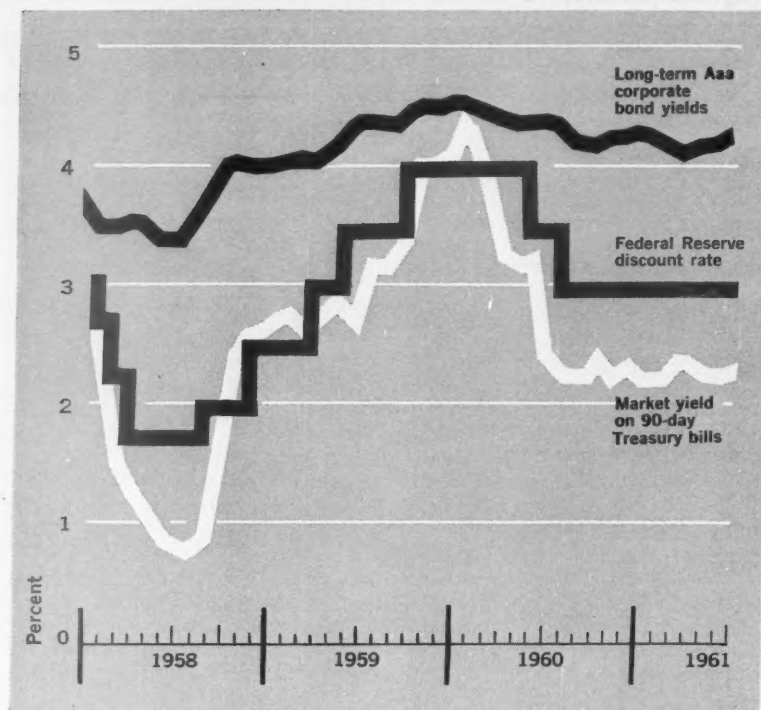
▪ Currency in circulation went up \$278-million, because of the July 4 holiday. This hits bank reserves because banks actually have to buy from the Fed the cash they give out to the public—paying for it by drawing checks on their reserves.

▪ Deposits at the Fed, including those of foreigners, rose \$54-million. Such an increase drains reserves, since balances in effect are transferred out of the banking system.

On the other hand, two factors added reserves. The gold stock went up slightly. The Treasury also cut its deposits at the Fed, and its own cash holdings, by a total of \$203-million, thus returning this to private banks.

So over-all, the Fed's purchase of governments during the week was of a defensive nature, resulting in a standoff.

### 3 How Fed policy affects interest rates



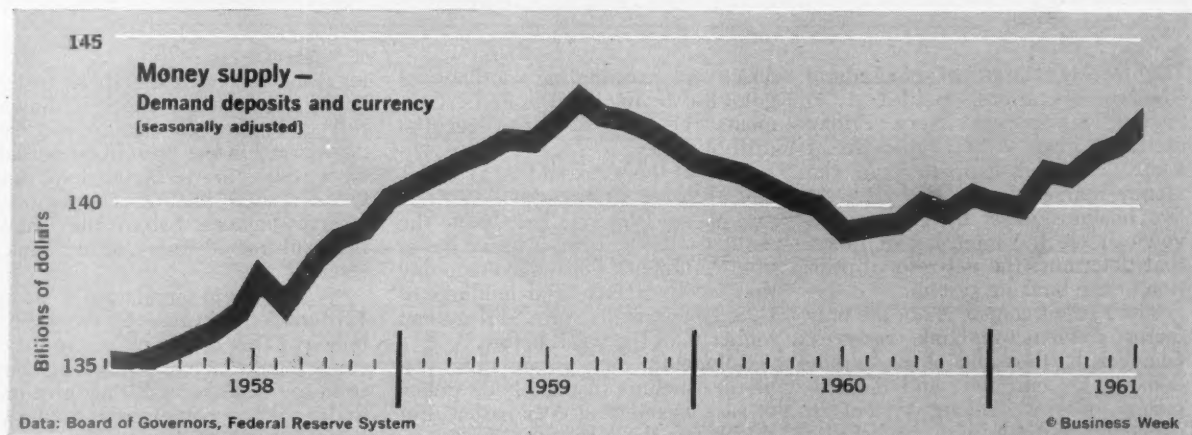
When the Fed eases up or presses down on credit, interest rates usually react swiftly. Because interest rates are primarily influenced by the supply and demand for funds, any shift by the money managers can be observed first in money market rates.

As you can see from the chart, short-term interest rates are by far the most sensitive indicator of changes in the money market and in Fed policy. For example, the 90-day Treasury bill rate frequently signals an impending change in policy.

**Tipoff.** But the pivotal role is played by the Fed's discount rate—the rate charged member banks for temporary loans of reserves. As the Fed itself says: "A change in discount rates may express a shift in the direction of Federal Reserve policy toward restraint or ease . . . it may reflect a further step in the same direction. . . . Or it may represent merely a technical adjustment of discount rates to market rates."

While the discount rate sometimes leads and sometimes lags behind other money market rates, bankers regard changes in it one of the best indicators of monetary policy. When the Fed changes the discount rate, other rates in the money market are almost sure to react.

### 4 Fed's main goal: controlling the money supply



In the last analysis, the Fed's efforts to control bank reserves are aimed at regulating the money supply—the total stock of money (demand deposits and currency) that the American public has available to purchase goods and services.

The Fed defines this task as a "primary responsibility." It's clearly important—too much money could mean inflation, while too little could choke off economic growth.

**Confusing data.** Indeed, some economists feel that watching the money supply, particularly its rate of increase or decrease, is the best way to determine what Fed policy is at any given moment. But data on the money supply can be confusing.

For example, in the first half of 1960—when the money market was getting progressively easier and money rates were dropping—the money supply also was declining. On

the surface, this looked contradictory. For declines in the money supply usually indicate a restrictive monetary policy.

However, the rate of change in the supply is even more important than the total change. In January, 1960, while the money market was still tight, the rate of decline began leveling off. This signaled that a change in policy, toward easy money, was on the way. **End**

# International outlook **BW**

July 22, 1961

## **Britain lays groundwork to defend sterling**

Britain next week will disclose its master plan for defending the pound sterling—now under severe pressure.

The measures are expected to be drastic. They probably will include a substantial drawing from the International Monetary Fund as well as an austerity program at home.

For Washington and European central bankers, who want to keep Europe's currencies stable, the program to shore up sterling should relieve mounting anxieties. There have been rumors of devaluation, and Whitehall's denials have done little good. They have washed off on the cold fact that Britain's reserves have been falling since the first of the year.

For the British, the new measures will signal a return to belt-tightening after the domestic economy has been on a spree. The pound has been under pressure largely because of heavy imports to feed the economy, accompanied by lagging exports.

## **Tapping the IMF**

Chancellor of the Exchequer Selwyn Lloyd is expected to announce that Britain will go to the IMF both to utilize its drawing rights and to ask for stand-by credit that it could call on at any time. This move should help bolster sterling by enabling Britain to pay off growing—and reportedly serious—obligations to European central banks (BW—Apr.22'61,p45).

## **Balancing the trade deficit**

But this is basically a stopgap measure. Over the long run, Britain's economic situation looks far from healthy.

True, much of the drop in Britain's reserves is due to outgoing short-term funds that entered the country only last year when the U. S. dollar was under attack. But there's real trouble because of Britain's "hard-core" deficit in its balance of payments.

In its unaccustomed prosperity, the British economy has fallen into the dangerous pattern that always threatens a mercantile nation. It has been spending too much on imports, earning too little on exports, and thus has showed a large trade deficit. The earnings on invisibles—shipping, investments, and the like—haven't closed the gap.

The new program will try to remedy this. It will include restrictions on domestic demand to damp down the business boom (which, in wiping out unemployment, has encouraged heavy wage demands).

Likely measures: increased sales taxes, cuts in government capital spending, restrictions on financing of private construction, and possibly a hike in the bank rate (which could stimulate another flow of short-term capital into Britain). Thus, with brakes on the domestic economy, industry will be forced to be more aggressive in overseas markets.

## **Washington girds for showdown in Berlin crisis**

Pres. Kennedy is playing the Berlin crisis coolly and carefully.

You can see this in his press conference this week and the long note to Moscow laying out the U.S. position. He is documenting the Allied case, warning that the West will fight, but holding the door open for negotiations.

New defense measures, which the President will announce next week, will reflect this firm but cautious approach. There will be no massive call-up of reserves nor a full-scale air alert. Rather, Kennedy will call for



## International outlook Continued

less spectacular moves in order to increase the long-term strength of U.S. forces.

**The President must persuade Soviet Premier Khrushchev that the U.S. will stand firm, even at the risk of war, while avoiding moves that could lead to panic on either side.**

### Allies set strategy

The Allies plan a series of quiet moves between now and the expected climax of the crisis at yearend. These could include economic sanctions against East Germany and the Communist bloc, plus a gradual increase in the strength and alertness of NATO forces.

**Timing is most important.** There's fear that saber-rattling now would make later measures look anticlimactic and thus intensify Soviet suspicions that the U.S. is bluffing.

**Meanwhile, Washington is keeping open the channels for negotiation that might lead to an East-West foreign ministers meeting or even a summit conference.**

### Pulling and hauling in Dominican Republic

A complex power struggle in the Dominican Republic is beginning to take shape. It's an aftermath of the assassination of dictator Rafael Trujillo eight weeks ago (BW—Jun. 10'61, p99).

**One fight is going on among the rightwing political and military followers of the dictator.** A group of older generals and politicians has rallied around the dictator's little-known brother, Jose Arizmendi Trujillo. They would continue the iron rule of the departed Trujillo.

**Opposing this is a more moderate group, led by Rafael Trujillo, Jr.,** perhaps better known as Ramfis. Made up of younger officers and politicians, it gradually would liberalize the government. It appears to have the upper hand at the moment and has cautiously removed a few of the former restrictions.

### Fidelista threat

A second struggle is in the offing, depending upon the outcome of the pulling and hauling within the right wing.

**If the moderate right wing wins out, chances of an open revolt will be reduced.** A moderate regime may be able to gain the support of the middle-road groups, which are now getting together after their years of exile.

**If the ultra-right wing prevails and tries to carry on the military dictatorship, it may be only a matter of time before there's an uprising.** It would be fostered and led by the extreme left, which is in close touch with Fidel Castro in Cuba.

### Korean junta begins to settle down

Washington hopes that the South Korean military junta, led by Gen. Pak Chung-hi, is shaking down and will be less repressive from now on. The release of 1,000 political prisoners and moves to begin economic cooperation with Japan are encouraging signs. A purge of younger and wilder officers who are bidding for power seems to be brewing.

**The immediate future, however, depends upon how Gen. Pak evolves as a leader.** He could become a dictator like the latter-day Syngman Rhee or a benign ruler like Pakistan's Ayub Khan. Since Pak allegedly is modeling his career after those of Ayub and Burma's Ne Win, Washington hopes that he will move in the latter direction.

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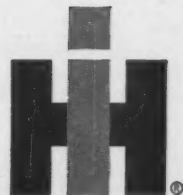


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### REGIONS

# City defies state

Newburgh, N. Y., balks at state's standards for caring for needy families

Newburgh, N. Y. (picture) is a historic Hudson River town, on the west bank 60 mi. north of New York City. It was once a whaling port and, during the Revolution, the site of one of George Washington's many headquarters. Later it was a bustling factory and shipyard town.

In recent years, Newburgh has lived serenely, a bit rundown but still proud.

Now Newburgh's serenity has been broken by a controversy over how the city provides for its poor. City officials have begun a test of strength against New York State, and the federal government may also be drawn into the dispute. Sen. Barry Goldwater (R-Ariz.) has hailed the city's stern welfare plan as a model for all other cities. The issue is being argued from coast to coast.

**Cause celebre.** What made Newburgh a symbol of resistance to bureaucracy was a 13-point plan of changes in welfare administration, proposed a month ago by City Manager Joseph McDowell Mitchell and adopted by the city council in a 4 to 1 vote. The avowed purpose: to get "chiselers and loafers" off the relief rolls.

Among the new rules were these: Unmarried mothers would be denied relief if they had more children out of wedlock, benefits under home relief and aid to dependent children would be limited to three months in any year, able-bodied men on relief would be put to work by the city, no family's allotment could exceed the take-home pay of the lowest-paid city employee with a family of comparable size.

The New York State Board of

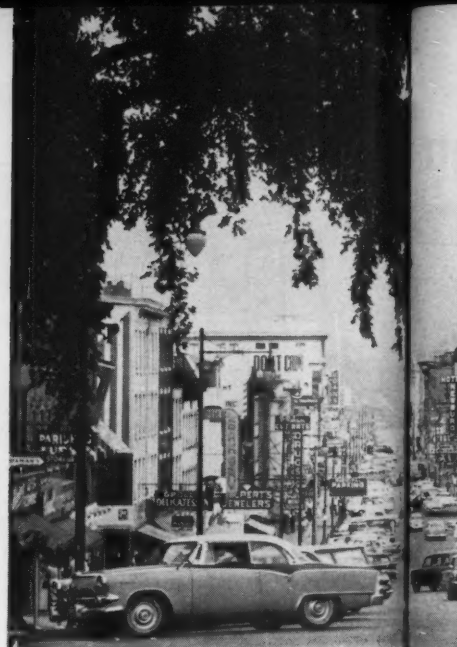
Social Welfare immediately pointed out that the Newburgh plan did not meet state standards and thus violated state law. It called city officials to Albany to explain.

Mitchell and the four Republican councilmen (Mayor William Ryan, the council's only Democrat, had cast the one vote against the plan) went to Albany after first arguing that state welfare people should come down to Newburgh and inspect conditions for themselves. When they were restricted to talking on the purely legal question, they refused to testify. Welfare Commissioner John J. O'Donnell broke Newburgh's front by testifying that he couldn't enforce 11 of the 13 changes—and thereby talked himself out of his job.

**Legal issues.** State welfare officials contend that the state constitution requires subdivisions of the state to provide for the needy "as the legislature may from time to time determine." The state decides how much aid its localities will provide; this assistance must at least meet minimum federal standards.

This week, the state sent agents to watch for violations. The state attorney general has been directed to "bring such proceedings as he may deem necessary." No showdown is expected for a month or two, when Newburgh gets its plan working.

The state pays a substantial part of a municipality's welfare costs; the state in turn receives \$150-million a year in aid from the federal government. New York welfare officials say they moved against Newburgh in order to protect this federal



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Newburgh's business district lies on the gentler slopes above bluff behind older waterfront section, now a slum.

aid. However, the U.S. Dept. of Health, Education & Welfare says the issue so far is solely between city and state; HEW doesn't plan to step in unless the state cuts Newburgh off from assistance—that would violate New York's agreement with HEW to distribute aid funds uniformly through the state.

**One-third of a budget.** Newburgh, a city of 31,000, is disbursing \$983,000 on welfare this year, and the city's own share, after reimbursements from Albany and Washington, is \$424,000. That's nearly one-third of the city's tax revenue.

However, far less money is involved in the parts of the welfare program that are at issue. Only two of the city's dozen forms of relief are affected by the controversial rules: aid for dependent children (which gets federal as well as state aid) and home relief (which gets only state aid). With three other federal-sharing programs, they form a budget item of \$413,000, of which Newburgh pays only \$106,000.

City officials concede that their 13-point plan would provide little immediate saving of money, but they suggest that publicity may give Newburgh a reputation for being tough and so serve to discourage families from moving there to obtain relief.

**Migrant relievers.** City officials insist they are not anti-Negro, and they point to the city's record of racial harmony, but the subject of relief families from out of town inevitably turns to Negroes, who form a growing portion of the city's lowest economic stratum.

During the last 10 years, the city's total population has dropped from

32,000 to 31,000. But the number of Negroes, many of them straight from the South, has soared from 2,000 to more than 5,000—from 6% of the total to 17%.

Some Newburghers ascribe this influx to the use of migrant workers on farms back in the interior of Orange County; some farmhands, they say, moved into town after a harvest season and brought their relatives up to join them. Other Newburghers declare they came because Newburgh got a reputation for being "a soft touch."

The problem was first brought out publicly in 1958 by George F. McKneally, one of the Republican city councilmen (like most of Orange County, Newburgh is so Republican that it never once went for Franklin D. Roosevelt, who lived at nearby Hyde Park, for either President or governor). McKneally blamed migrants for the rise in crime rates, fire alarms, and welfare costs.

McKneally persuaded the council that the problem called for talks with the city's Negro leaders, but nothing ever came of this.

**Time for action.** The issue lay dormant until after the hiring of Mitchell as city manager last October. During his interview for the job, Mitchell gave councilmen his ideas of how he would cope with the slums on the waterfront.

Mitchell had not encountered slum problems in his brief experience as assistant city manager of a Los Angeles suburb and city manager of a suburb of Philadelphia, but McKneally says he gave the impression of being a man with the ability to get things done.

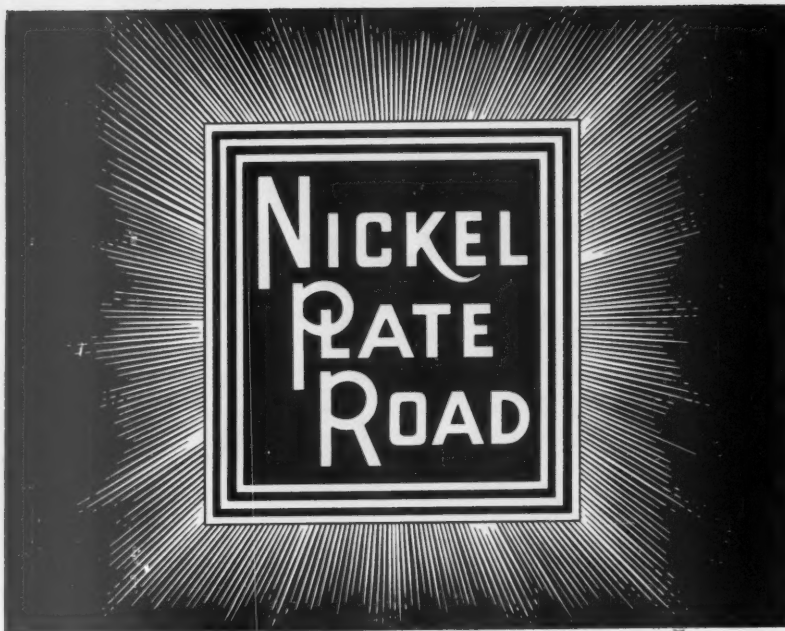
The first move, on McKneally's motion, was to authorize Mitchell to name a citizens' committee—a theater manager, an accountant, and a doctor—to study the city's welfare operations. While the study was under way, the city began to speed up its urban renewal program and inspection of rundown housing.

**Pinning the blame.** The committee report in May gave the council plenty of ammunition. It found that welfare costs had risen substantially, because the program was run to comply with state and federal regulations. It blamed the rise on "outsiders, principally from Southern states."

The report noted that aid to dependent children and home relief were running well over their budget and that this rise constituted "direct reflections on . . . the standard of moral values of the population element involved." Except for "the care of worthy folk in the city home and infirmary," the report said, Newburgh's welfare spending had been "a total loss." Instead of halting the decay of the city, it had financed migration and purchase of whiskey, cars, and "other indulgences."

The fault, the report suggested, lay in the tailoring of welfare policy to compliance with federal and state laws by a city department that had been "immune to the direction" of the city manager and council. The city council responded first by trying unsuccessfully to have Orange County take on its welfare responsibility. Then it voted sweeping powers to City Manager Mitchell to cope with welfare.

That's when the fight began. **End**



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## Hawaii gets own antitrust law

### Effects on "Big Five"

companies dominating state's economy are uncertain

A state antitrust law was signed by Hawaii's Gov. William F. Quinn last week amid speculation that it could have significant effects on the five big corporations dominating the state's economy. The new law will go into effect next month when federal antitrust legislation will no longer apply to the former territory's intrastate commerce.

Though most states have antitrust laws, Hawaii's is regarded as rather stiff—with bars against both vertical (dealer-customer) and horizontal (competitor) interlocks that "substantially" lessen competition. Provisions include triple damages for injured parties, jail sentences up to a year, and fines up to \$10,000.

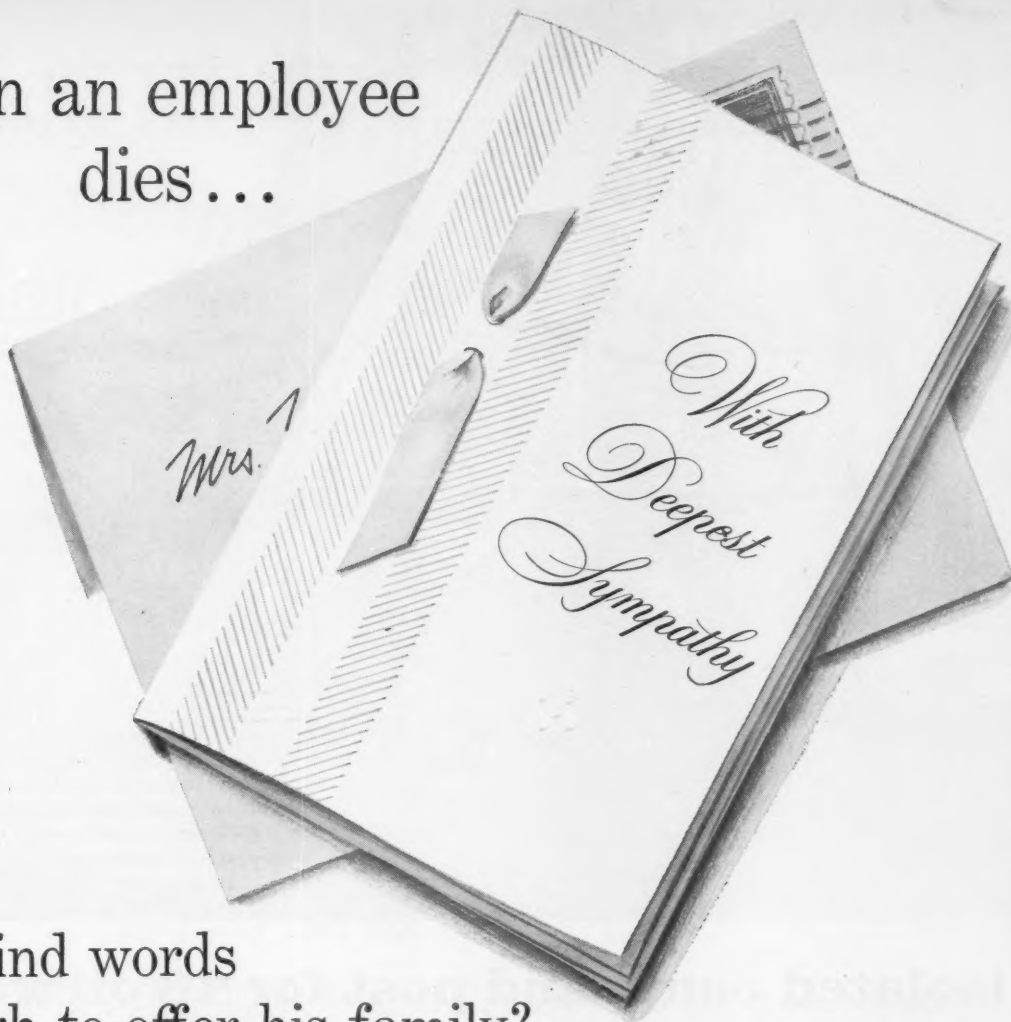
The bill was passed after hearings in the state legislature focused on operations of the "Big Five" factoring companies that control 95% of the state's sugar production, more than half of its pineapple production, and its main shipping line, Matson Navigation Co. The companies, which have diverse other holdings, are Castle & Cooke, Inc., C. Brewer & Co., Ltd., American Factors, Ltd., Alexander & Baldwin, Ltd., and Theo. H. Davies & Co., Ltd.

**Close ties.** While there are no interlocking directorates among the Big Five, such ties among subsidiaries and affiliates are not uncommon. One saving clause in the law provides that courts shall not order divestiture of assets held prior to its effective date when this would cause undue hardship.

The effects of the new law are uncertain. Big Five executives deny that they will be seriously affected. In June, however, Alexander & Baldwin announced it was disposing of its 8% stock holding in American Factors.

The State Attorney General already is gathering data for possible damage suits against General Electric Co. and Westinghouse Electric Corp., which have sold equipment to counties within the state and are therefore liable. **End**

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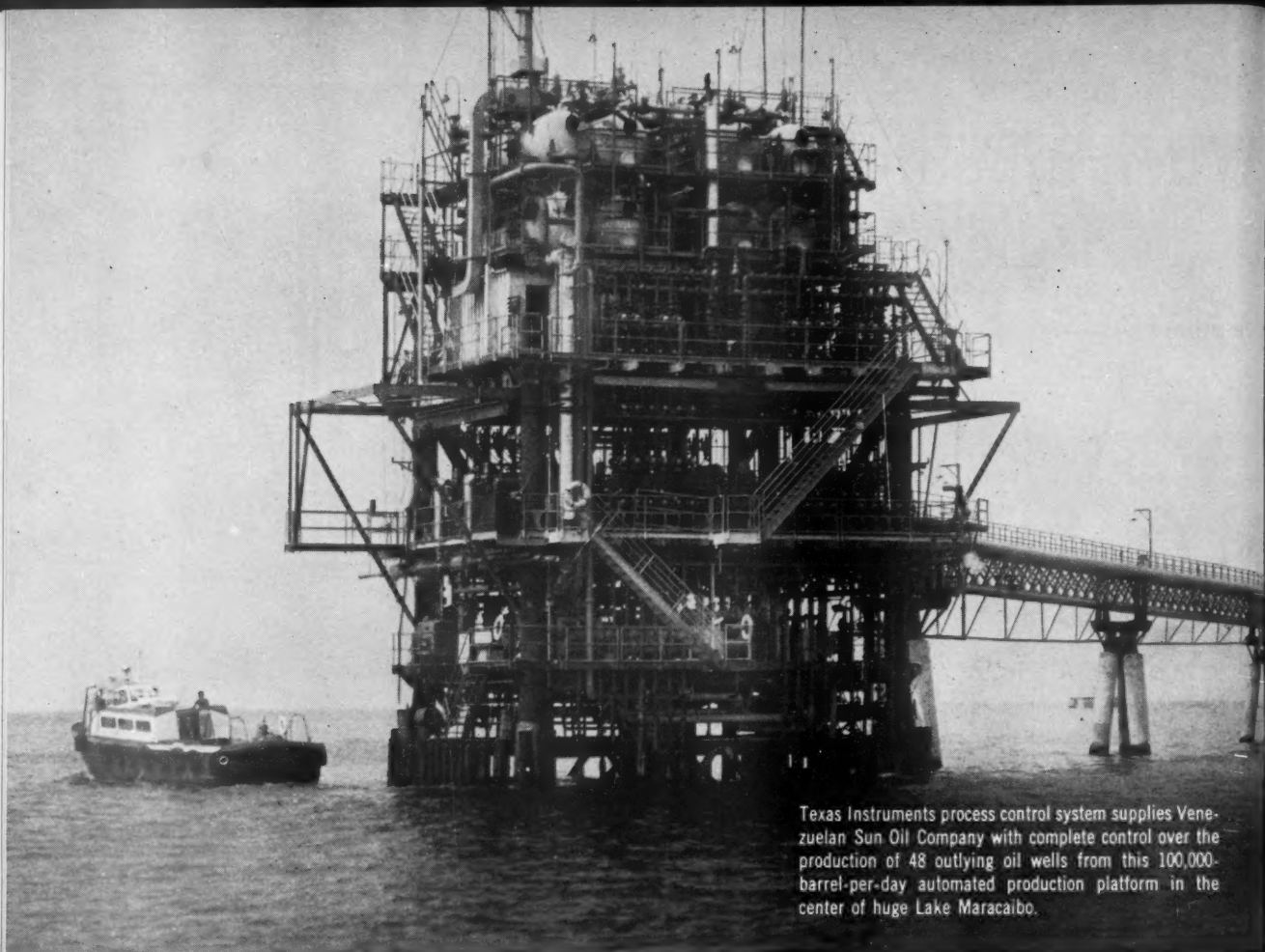
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# Stocks hit bottom in Britain

Industrial index near low for year, but slump is selective. Some shares rise

In just a little over six months, the London stock market has come full circle.

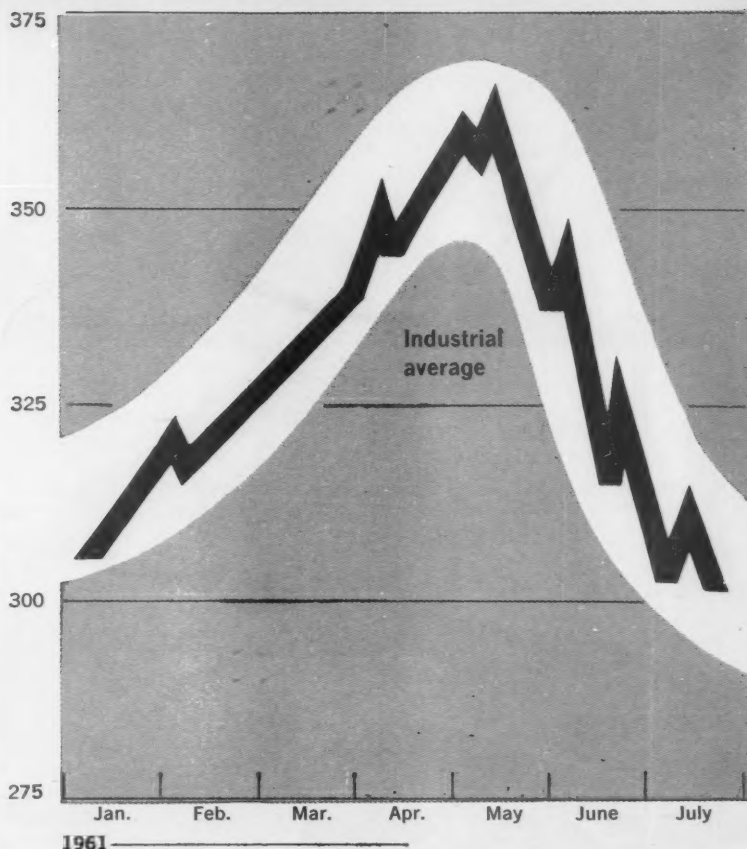
After a sharp ascent earlier this year, stock prices have been battered by a number of international and domestic pressures; this week they plunged to new lows for the year (chart) before rallying on news that the British government plans to draw a substantial sum from the International Monetary Fund to further support the pound, which has been under speculative attack.

Stocks and bonds have been falling together. The Financial Times index of industrial shares slumped to 301, lowest point since December, after having reached a peak of 365.7 in mid-May. At the same time, the British bond market also is demoralized, with government securities sinking to new lows.

The rapid 18% decline in stock prices has been the sharpest on any major world exchange this year. But it has not been an across-the-board slump. Since the start of the year, tin shares have risen about 75%, plastics are up 33%, and insurance stocks 25%. What has hit the market has been heavy selling in steels, coppers, shipping stocks, gold mining shares, and finance companies.

**Too far, too fast.** The British market has had many of the symptoms of the U.S. market—the frantic bidding for new issues, the stress on consumer goods companies, the growing interest in equities by small investors. Finally, it shares the fate of having gone too far, too fast. When corporate profits failed to match expectations, stock prices started to fall—in line with the drop in stock exchanges around the world. The British economy is more vulnerable than the others, so the fall in stock prices was steeper.

## British stocks ride a roller coaster



Data: Financial Times

© Business Week

The decline stems from a combination of foreign and domestic factors. British brokers cite the underlying weakness of the economy as evidenced by the increasing deficit in the balance of payments, the uncertainty of future relations with the Common Market, and the Berlin threat.

Each has had an impact on stocks and the pound sterling, which is at its lowest level in four years and still faces the normal seasonal pressures of late summer and fall. Most U.S. bankers insist that sterling is safe (BW—Jun.17'61,p32), at least for the present; but the long-term outlook is troublesome.

Of all Britain's problems, the deficit in the balance of payments is most threatening.

**Overspending.** Britain, as everyone admits, has been living beyond its means and the Macmillan government is now preparing measures to curb consumption, spur productivity, and boost exports. Selwyn Lloyd, Chancellor of the Exchequer, says he will unveil these measures on July 25, and warns they

may be both "unpopular and unexpected."

Guesses range all the way from an increase in indirect taxes on consumer goods and an increase in interest rates, which seems probable, to a cutback in overseas expenditures and an attack on union bargaining procedures that have promoted wage-cost inflation. Uncertainty over the moves to be taken is helping to drive down stock prices. Most of them mean reduced sales at home, adding to already squeezed profit margins.

But the very fact that Britain is finally facing up to its problems may bring a turnaround. And if Britain joins the Common Market, it should not only mean increased trade but a much more active interest in British equities, which are still relatively cheap compared to most European securities.

**Hot money.** The difficulty in reducing the trade gap has been complicated by the pressure placed on the pound sterling through the flow of hot money attracted to London last year and through the revaluation of



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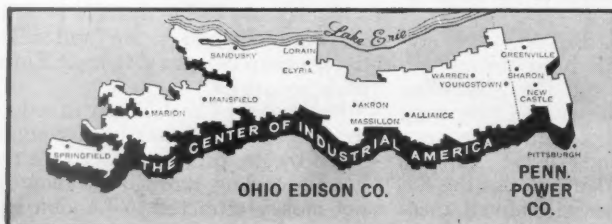
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the West German mark last March. The resulting decline of sterling on foreign exchanges has left the pound vulnerable. European central banks—which have agreed to hang onto currencies under speculative pressures—have shielded the pound since March, but despite this support, gold reserves are falling.

It will be Lloyd's job to instill new confidence in the pound and the British economy. This will be a ticklish task because of the conflicting pressures from home and abroad. Rising costs and stiffer competition, for example, are squeezing manufacturers in a number of industries, particularly chemicals and steels, yet some of Lloyd's measures could hamper them still further.

All this must be accomplished, too, while the Macmillan government maneuvers to get into the Common Market, which would be a bullish sign for British stock prices. Many investors are reducing their holdings of British stocks because they lack appeal compared with shares of companies that will participate in

the Common Market. These investors might be expected to shift back if Britain gets into ECC soon.

**No panic.** With all the weakness in stock prices, there has been no panic selling. British brokers report that the break in price has been caused by an absence of foreign buyers, rather than by heavy selling. For the most part U.S. buying has been light.

British trusts, for their part, are waiting for cheaper prices. They seem convinced that industrials in the long run are a better hedge against inflation than fixed-income securities. And brokers say trustees should make prompt use of the new law permitting them to put more of their assets into common stocks.

From a technical view, then, the stage is set for a stabilization—if not a turnaround—in stock prices. There is lots of money around, and prices have come down sharply. An ease in international tensions certainly would help, but it will be the Macmillan government's actions that will shape the rebound.

mainly because it had placed attractive yields on the new issues. Investors have a choice of three different securities:

- A 5½-month 3¼% note.
- A three-year 3¾% note.
- A 6¾-year 3⅞% bond, offered at a discount to yield 3.98%.

Treasury Under Secy. Robert V. Roosa said that holders were not offered a long-term bond because "this is not a time of any genuine demand." Before the Treasury announced its refunding package, it held a series of meetings with various investor groups and found that there was little interest in any long-term securities, mainly because of a feeling that interest rates would rise—and bond prices fall—as business picked up steam. And the Treasury was not disposed to put out a long-term issue that might compete with private demand for funds.

**Question of attrition.** The Federal Reserve will cooperate with the Treasury over the refunding operation, both by accepting the exchange for its own holdings and keeping credit conditions easy. Public holders—banks, insurance companies, corporations—will probably show most interest in the short-term offerings. The Treasury is hopeful that at least \$500-million will go into the bonds, and it will be satisfied if attrition is held to less than 10%—which would amount to \$750-million on the public portion of the debt.

If attrition is within bounds, the Treasury's raising of \$3.5-billion in tax anticipation bills, which will mature next March, will cover its cash needs for the time being. By sweeping up \$16.5-billion in its financing operations it is, in effect, clearing the decks until the fall.

**Little lengthening.** The one problem that the new plan does not solve is the Treasury's need to lengthen the debt. While the bond it offers is a token attempt to get some lengthening, most of the demand will probably be for short-term issues, so that any stretchout will be minimal. But as Sylvia Porter's Reporting on Governments points out, the Treasury team "knows that it has to achieve some debt-lengthening to prevent an excessive concentration of maturities in the short end."

This debt-lengthening will be made somewhat easier by getting the present refunding out of the way. And the chances are that when it attempts a stretchout, the Treasury will go to advance refunding—offering holders of outstanding issues a new long-term issue with an attractive yield. This week's refunding was a prerequisite to just such a maneuver. **End**

## Rolling over \$12.5-billion without much stretchout

**The Treasury's biggest refunding in this Administration has little effect in lengthening the public debt, but it does clear the decks for such an effort next fall.**

In its biggest financial operation since taking office, the Kennedy Administration's debt management team is refunding \$12.5-billion in maturing Treasury securities and borrowing \$3.5-billion in cash. Wall Street felt that the Treasury's decision would mean some stiffening of interest rates, at least in the short and intermediate range. But the consensus is that, despite the huge amount involved, it would mean a minimum of disturbance to the money market.

**Policy choice.** The Treasury was faced with a difficult choice. It had more than \$12-billion in obligations maturing between Aug. 1 and Sept. 15. It could pay off the holders of the maturing debt and offer brand-new obligations for cash. Or it could give them an opportunity to make an exchange, which means holders could take the new securities or sell their rights to other investors.

There were arguments on both sides. The advantage of cash offering is that the Treasury does not have to worry if holders of the maturing obligations refuse to take the exchange. In the past, the Treasury has been embarrassed by large-scale "attrition"—the demand for cash on the part of investors. This always meant that it had to come back to the market with a fresh offering to get the funds it needed, which is an unsettling factor.

But the Treasury decided against the cash route. It felt it could keep attrition to a minimum and, at the same time, clear the decks of a great deal of debt. In essence, it hopes that the obligations it is offering will prove attractive so that it will not have to come back to raise more funds in a hurry.

**Investors' choice.** Government securities dealers report that the Treasury's choice was a good one,

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	<b>Wertheim &amp; Co.</b>	<b>Bache &amp; Co.</b>

July 12, 1961

*All of these shares having been sold, this announcement appears as a matter of record only.*

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July 11, 1961.

## Wall St. talks...

**about lag in orders from  
Pentagon, shifts by  
semiconductor companies**

Despite all the talk about increased defense spending, a number of electronics companies report that **orders from the Pentagon are slow** in coming. This could hurt profits in the third quarter and for the year as a whole. For the lag comes on top of a first-half slowdown in letting defense contracts while many companies were incurring start-up costs on new plant.

Meantime, a number of companies in the semiconductor field are taking steps to meet pricing and other problems. **Raytheon** is dropping several lines, consolidating some of its facilities. **Texas Instruments** has a new organizational framework, with semiconductors split into two divisions. And **Transitron Electronic Corp.**, one of a growing list of former "growth stocks" that have taken a beating in the market, is talking up a new inventory control system that it claims will solve "at least part" of its profit problem. For the three-quarters of its current fiscal year, the company reported earnings of 40¢ a share against 80¢ a year ago.

**G. F. Nicholls & Co., Inc.**, an over-the-counter house, has abandoned its plans to promote a new convertible bond fund—**One Maiden Lane Fund, Inc.**—because of a dispute with the SEC over the selling price for the fund. According to George F. Nicholls, head of the firm, the SEC insisted that **One Maiden Lane** be sold at \$1.75 a share, in contrast to the \$3 price originally proposed. Nicholls, who with some associates bought into the fund at \$1.50, explains: "The \$1.75 price was ridiculous, so we called the thing off—for the time being at least."

Wall Street was surprised—though hardly upset—at the meager list of witnesses that Sen. Albert Gore (D-Tenn.) managed to round up to support his campaign to abolish the stock option. James B. Carey, of the International Union of Electrical Workers, Lewis Gilbert, professional heckler at annual meetings, two financial writers, and a retired Army officer made up the lot.

# In the markets

**BW**

## Stock prices edge down as worry over Berlin provokes jitters

Berlin's symbol is a bear, and its shadow was evident over Wall Street this week.

The domestic economy was continuing its improvement—the early reports of corporate earnings in the second quarter reflected the upturn, although they were in many cases below the second quarter of a year ago. But stock prices moved lower as worry about a possible showdown over Berlin began mounting.

Investors were not panicky—there was no sign of a selling wave—but they were nervous, and showed little disposition to bid for shares, even of issues that might benefit from a stepup in armaments.

Most analysts feel the attack of nerves affecting investors is unlikely to last, and still look for higher stock prices. They point out that credit is easy and that business is still in the very early stages of an upturn, conditions that normally presage higher stock prices. They doubt that the Berlin crisis will result in war but look for higher defense spending that could be inflationary—and attract investors into increased stock purchases as a hedge.

A minority fears that increased military expenditures may mean increased taxes, which would put a damper on the higher profits that investors expect. With stocks already selling at very high price-earnings multiples, they wonder whether any real rise could be sustained—if the cloud over Berlin darkens.

If the Berlin situation deteriorates, the market could decline further. But a collapse seems hard to envisage. In fact, some institutional men were saying this week that the market was oversold, and that bargains were available.

## Smuggling of Swedish telephone company stock pinches pocketbooks of U. S. investors

Wall Street's latest whodunit is the case of the smuggled stock that is depressing the price of Sweden's Ericsson Telephone Co. and reddening the faces of Swedish authorities.

Ericsson, like all Swedish companies, has two classes of stock in order to prevent foreign holders from gaining voting control. Its A shares, with one vote for each share, are restricted to Swedish residents. The B shares, which have reduced voting rights, can be acquired by foreigners, and are traded here over-the-counter. Normally, the shares trading outside the country sell at a slight premium because of their scarcity, since Swedish foreign exchange regulations inhibit stock sales to foreigners. Demand for Ericsson from U. S. investors a few months ago sent the premium soaring. Ericsson stock was trading here at about \$34—\$6 more than the price in Sweden.

This set the stage for an obvious quick killing. Swedish residents bought B shares in Sweden, smuggled

them out of the country—to avoid exchange rules—and sold them at the higher price. However, this cheap Ericsson stock came into the market at about the same time that prices began sagging in European stock markets, and Ericsson's stock promptly fell.

Ericsson now is trading at about \$27.50, but the premium is still about \$5, and big U. S. investors are anxiously seeking ways to stop any further dumping by Swedes. Ericsson officials are naturally concerned, but so far efforts to get Swedish authorities to approve American Depository Receipts—which might eliminate the premium for all practical purposes—have been futile.

## J. A. Winston asks SEC to reverse expulsion order by security dealers group

One of Wall Street's most aggressive small underwriters (BW—Sep. 24 '60, p147) went on trial for its commercial life this week. J. A. Winston & Co., Inc., has appealed to the Securities & Exchange Commission to reverse a decision of the National Assn. of Securities Dealers—the industry's self-policing arm—expelling Winston from NASD. If the decision stands on appeal, it would force Winston, which generates some \$13-million a year in gross income, out of the securities business.

The case is important for several reasons:

- Winston is accused of charging "excessive" mark-ups on some securities sales, a practice that SEC has long been trying to curb. Some underwriters feel that SEC may use the Winston case as an excuse to lay down a new, stiffer definition of what is considered a reasonable underwriting profit.

- Winston is also charged with allowing salesmen, not qualified under NASD rules as registered representatives, to sell shares. Officials at NASD say that the Winston case is intended as a "fair warning that unregistered security salesmen will not be tolerated."

- In addition, the Winston case may involve one of the first major decisions taken by SEC since its domination by Kennedy appointees. Former SEC Chmn. Edward N. Gadsby has resigned, and his replacement will give Kennedy men a 3-2 edge on the commission. This could be significant, since Kennedy apparently has been going out of his way to find men who favor a hard line in securities regulation.

## Accounting report for brokerages

Peat, Marwick, Mitchell & Co., the big accounting company, has come up with a timely report on developments in Wall Street's back-office operations. The big increase in trading volume this year has led a number of brokerage houses to consider setting up their own clearing operations—they're now paying about 40% of total commissions to have bigger houses clear for them. Peat, Marwick's report lists new techniques that could be used.



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Sources: Vickers Associates, Inc.; Publishers Information Bureau

## LABOR

# Steel has eye on Washington

**It's time to prepare for 1962 contract talks, and steelmen are already worrying about federal intervention. They see pressure to bargain on management policies**

Detroit auto bargaining holds center stage in labor-management interest these days—but the focus is broadening to include the steel industry's next round of negotiations, now just nine months off.

The steel industry and the United Steelworkers began intensive preparations for 1959 bargaining fully nine months before their first date at a negotiating table. Preliminary work looking ahead to 1962 talks is under way now. A union spokesman not long ago said basic steel companies are engaging in "tactical maneuvers" for a favorable position. USW is maneuvering, too.

**Eyes on Washington.** There is one big difference between 1958, when the steel industry began its preparations for the marathon bargaining of 1959, and now. It's the steelmakers' uneasiness about labor policies of the Kennedy Administration.

Although it didn't turn out quite that way, bargaining in 1959 was expected to be under a government hands-off policy. This time, the industry is uncomfortably aware that its every move will be under the close scrutiny of the Administration. More than that, it knows that Pres. Kennedy's principal—and influential—labor adviser, Labor Secy. Arthur Goldberg, can interpret each move shrewdly. While general counsel of USW for a dozen years, Goldberg was one of the union's keenest negotiators.

Pittsburgh steelmen have a big stake in the negotiations in Detroit that involve their biggest steel customer. But they are showing an increasing preoccupation with prospects of their own bargaining under changed government policies.

They recognize that bargaining in 1962 could be much tougher for the industry; they wonder if it could be for the union as well.

**Forebodings.** Steel's forebodings

began with the election of John F. Kennedy to the Presidency. Both his position as a senator and his labor policies as a presidential candidate left no doubts about a quick end of any hands-off policy in disputes.

Kennedy's choice of Goldberg as his Secretary of Labor wasn't so worrisome. In part, this was because the industry considers Goldberg a man of integrity. In part, too, it was because many in the industry had come to consider the Eisenhower Administration's "friendly" Labor Secy. James P. Mitchell as a rather distant friend—if one at all—in the final days of 1959-60 negotiations; they doubted that they would have more to fear from Goldberg.

The forebodings grew as the Administration plunged quickly into labor disputes. Steelmen had expected this, but when it actually happened in the New York harbor strike and the national airlines tieup, the industry saw bold, black handwriting on its wall.

Goldberg's mid-spring comment in Detroit that the nation "cannot have a shutdown in the automobile industry this year," and the Administration's total involvement in the maritime strike ended all doubts of problems ahead.

**Committee study.** However, what really has steel buzzing these days is Pres. Kennedy's advisory committee on labor-management relations—and most specifically a group study of "free and responsible collective bargaining and industrial peace" it launched two weeks ago under the chairmanship of David L. Cole and with Dr. George W. Taylor as a subcommittee member. Steelmen see the study pointed at them because:

- Steel will be the first industry involved in major bargaining after the subcommittee's report, due Sept. 11, is considered.

- The study plan seems to the in-

dustry very much like the tripartite program of the Kaiser Steel Corp. and USW—and Cole and Taylor are public members of the Kaiser committee (picture, below).

## I. An old worry

Steel insists that it's basically wrong to give third parties a continuing jurisdiction in management-union relations. That's why it has been so critical of the Kaiser Steel-USW "peace" program.

The differences came out pointedly at a labor-management conference at Ann Arbor, Mich., last spring. Dr. Taylor, chairman of the Kaiser Steel-USW committee, said that intervention by public members—on invitation of the employer or industry and the union—can make faltering collective bargaining a success. A steel spokesman disagreed.

James C. Phelps, industrial relations vice-president of Great Lakes Steel Corp., charged that such a plan as that adopted by Kaiser Steel and USW is a "surrender" of collective bargaining rights.

In an address last fall, United States Steel Corp.'s labor relations vice-president, Heath Larry, warned the industry that Kaiser-pattern conferences "are potentially as dangerous to the maintenance of a competitive free market society as compulsory arbitration."

And last week R. Conrad Cooper, a U. S. Steel executive vice-president, broadened the warning, noting that there are fears that the President's advisory committee "might turn into a kind of industry council plan of the type that some unions have been urging for many years as a vehicle for union participation in all top policy decisions of management, in-

cluding those relating to prices, financial policy, and product and facility planning."

**Not just imaginative.** Cooper wasn't just imagining frightening things. The Kaiser Steel study committee, with union, company, and public membership, has that much jurisdiction—and more. So in spite of official assurances that no such role is intended for Kennedy's labor-management committee, steelmen were shocked two weeks ago when Goldberg, announcing the subcommittees and their topics, said:

"Everybody recognizes that there is great public interest in wage and price policies in the United States. How that public interest is best manifest, whether it is best settled in the clash of the market place or by other devices, is a matter which is still under consideration by the committee."

## II. Was Kaiser wiser?

To understand steel's swift, sensitive reaction whenever continuing third-party jurisdiction in its union-management relations is proposed, you must go back to the 116-day strike in mid-1959. After months of effort, USW Pres. David J. McDonald split Kaiser away from the industry's solid front.

Critical to that maneuver was the establishment of a continuing study committee with jurisdiction over all facets of Kaiser's industrial relations. The core of that jurisdiction was Kaiser Steel's willingness for both public and union members to help make financial policy in the broadest sense (BW—May 14 '60, p103).

**Peace formula.** McDonald and Edgar Kaiser hailed that concept as the new look in steel's labor-manage-

ment relations, perhaps a device to end strikes in steel. But that was drawing a pretty long bow—for Kaiser simply isn't important in steel.

So it remained McDonald's problem to manipulate or force acceptance of that concept by the industry as a whole. So far, no such acceptance even is remote.

Perhaps, though, Kennedy's labor-management advisory committee may help bring it to pass. That is the possibility many steelmakers are pondering so seriously today.

## III. Everybody's studying

Meanwhile, steel and its union are deep in a joint study to illuminate some of the abstruse technical problems their bargainers will face.

Six subcommittees are working on economic guides, job classifications, incentives, seniority, medical care, and grievance and arbitration procedures.

With, say, eight months to go before reporting, these subcommittees already have turned in documents enough to fill two large notebooks each a couple of inches thick.

Both sides point out that—unlike the Kaiser study committee—the industry committee is not directed to negotiate issues, solve problems, or evolve formulas. Rather, its assignment is to study issues and to make joint recommendations if possible.

The industry study faces one formidable procedural roadblock that doesn't apply to the Kaiser group. That's the fact that only two or three companies hold memberships on a given subcommittee, yet they must speak for 12 companies. Inevitably, that makes the going more tedious—but it hasn't prevented progress. **End**



Edgar Kaiser, far right, makes point with Kaiser-USW committee members David Cole, David McDonald, George Taylor.

## Carey tightens grip on IUE's helm, but the crew wants a straighter course

A behind-the-scenes fight for control of the International Union of Electrical Workers caught the spotlight briefly last month when Pres. James B. Carey took a poke at Secy.-Treas. Al Hartnett. But it apparently has reached a lull.

Last week Carey emerged from a special executive board meeting with full authority over the IUE staff. During an earlier skirmish, he had been forced to share this authority with Hartnett. As secretary-treasurer, however, Hartnett still has a strong voice in money decisions.

Apparently, even those IUE top officers who are most critical of what they describe as Carey's headstrong, erratic leadership have decided to stick with him for the present. They have done so partly because recent events have indicated that he is still popular with the union's secondary leadership and rank-and-file membership, partly because Hartnett arouses no great enthusiasm as an alternative. But their main reason is that they don't want to risk seeing IUE shattered in a pitched battle or splintered slowly in a long drawn-out campaign.

But if the board, in effect, voted for peace, it wasn't peace at any price. Insiders agreed that Carey would be well-advised to mend his fences and watch his step. Further "erratic" behavior might revive the Hartnett bid for power or—more important—lead to the emergence of a stronger figure to challenge his leadership.

## Hoffa's overtures to rejoin AFL-CIO pose big problem for federation

There is growing sentiment in AFL-CIO for inviting the International Brotherhood of Teamsters back into the weakened house of labor. Readmission could be an issue at the federation's biennial convention this fall. But, now, any such move seems doomed.

There are big barriers in the way of reaffiliation:

- **AFL-CIO Pres. George Meany** is irreconcilably against taking the Teamsters back while James R. Hoffa heads the IBT—and Hoffa has just won an unqualified vote of confidence and sweeping new powers for the next five years (BW—Jul.15'61,p104).

- **The Kennedy Administration** is continuing its investigations of Hoffa and the Teamsters; it's far from convinced they're "clean" now. Further charges are probable. AFL-CIO can't readmit the IBT without straining relations with the Administration—and risking the embarrassment of Justice Dept. actions against Hoffa and the IBT after their return to AFL-CIO.

- **And Hoffa's terms** are stiff. He insists the IBT must be accepted by AFL-CIO with no whittling away at its new, broad jurisdictional claims. Even if he insists on this for bargaining purposes only, the IBT has hundreds of thousands of members in jurisdictions

claimed by other unions. Hoffa won't give them up.

These barriers might fall before the convention. Hoffa is trying to topple them. He wants to get back in AFL-CIO for more political power to fight laws aimed particularly at the Teamsters and for a shield of respectability. And he wants more scope for his own boundless energies and ambitions.

Hoffa's maneuvering for reaffiliation will make the IBT an important factor in internal affairs of the AFL-CIO. Teamsters support is a prize to be sought after by rival power blocs in the federation. The crafts, with close IBT ties in the past, count on Hoffa's aid. But Hoffa is making alliances with industrial unions that share his militant views, and even United Auto Workers Pres. Walter P. Reuther (a Hoffa foe in the past) isn't slamming any doors in Hoffa's face now. The two men are allied by political interests in Michigan—and elsewhere—and by anger at Meany.

Hoffa wants to return to a united AFL-CIO; he does not intend to try to set up a rival federation. But he expects the AFL-CIO to split apart by 1963. If it does, he says, the IBT will affiliate with "a splinter group" to form a new federation."

## Court upholds right of seniority workers to jobs in transferred plants

A federal judge in Detroit has complicated the plans of some companies that seek to take advantage of lower wage scales in the South. He has ruled that seniority workers have a vested right in jobs—and the right to transfer to a new plant.

The decision came in a case against Ross Gear & Tool Co.'s Gemmer Mfg. Div., producer of steering gears for the auto industry. Gemmer worked out a deal with the town of Lebanon, Tenn., for a new plant to replace one in Detroit.

Under the agreement, Lebanon sold \$2.4-million in revenue bonds for the plant, to employ local workers. The United Auto Workers local representing Gemmer workers in Detroit demanded that the 716 employees there be given transfer rights; when Gemmer refused, UAW went to court.

Judge Fred W. Kaess ruled for the union. Citing the precedent of *Zdanok vs. Glidden Co.* (in appellate court this week), the judge held that seniority rights become vested and apply to a plant no matter where it is located. The judge also ruled that Gemmer has an obligation to rehire present Detroit employees for its new Lebanon plant even after the normal expiration of the UAW contract with Gemmer this Oct. 1.

Ross Gear, of Lafayette, Ind., is appealing the Gemmer decision.

Meanwhile, UAW is preparing similar suits against a number of other Detroit-area companies planning to move south: Lyon, Inc., with 400 seniority workers, moving to Grenada, Miss.; Scott Valve Mfg. Co., with 140, shifting to Blythesville, Ark., and the Detroit Gasket Mfg. Co., moving to Newport, Tenn.



# Personal business

BW

July 22, 1961

## Rapid reading methods can help clear your desk

You hear a good deal these days about speed reading—the rapid abstraction of information from printed material. If, like many other executives, you never seem to catch up on your reading—for business or pleasure—you may wonder if there's something in it for you.

There probably is. But don't expect miracles overnight, or think that after a few weeks you're going to romp through some technical tome in a minute or two. It's just not that simple.

What can you reasonably expect from a reading improvement course? If you're an average reader (300 to 400 words per minute for business executives) and practice regularly, you probably can at least double, maybe even triple, your speed. Very good readers (500 to 600 words per minute) might possibly up their rate as much as ten times. Note: Easier and more efficient reading reduces tension and fatigue, an extra plus if you become proficient.

## Courses vary in approach, length

How about instruction methods? Reading improvement schools differ considerably. Some give only private instruction; others say shared experience in class is invaluable. A number of teachers use machines and gadgets to help students; others frown on them.

One thing, however, you usually can count on. If you stay with a well-conducted course, no matter what the procedure, you'll increase the all-important skill of skimming (looking for main ideas only, sweeping your eyes down the page).

Reading courses vary in length. Total time of supervised instruction may range from 10 to 48 hours. Two-hour sessions twice a week are the most common.

Costs can run from a few dollars (if you work at home with programed material) to \$600 if, say, private tutoring for several months is indicated.

## Stressing the 'big picture'

A rapid reading school prominent in the news is Reading Dynamics Institute, with headquarters in Arlington, Va., and branches in a dozen cities.

RDI teaches how to read a page vertically, absorbing in gulps clusters of words depicting thought patterns. Thus you avoid three habits that slow down most readers: backtracking to reread words, fixation, and subvocalizing (saying the words to yourself).

The technique lets your eyes trigger your mind directly—eliminating the middle step of saying, hearing, or thinking word sounds. The final breakthrough comes when you look at an entire page and see every word in focus, instead of just fuzzy type. (Classes run 2½ hours for 12 weeks, with an hour's homework each day; fee, \$150.)

## Adjust your pace to subject matter

Different types of material, of course, are read at various speeds. You may, for instance, eventually read an easy novel at 5,000 to 6,000 words per minute, but slow down to 2,500 to read technical material.

A common question about reading so fast is what happens to thinking about what you read. The answer, according to RDI: Before the memory can lose its grip on one fact, all have been brought into focus in one mental pattern. So you think later about the work as a whole.

If you're interested in improving your reading, it's a good idea to check first with an authority on the subject, perhaps a university or public school

## Personal business Continued

faculty member, to determine what recommended instruction may be available near you. Many colleges are now conducting adult reading courses. Among other sources of information are Reading Laboratory, Inc., 500 Fifth Ave., New York; Better Reading Program, Inc., 230 East Ohio St., Chicago.

### What's the best material for garden sculpture?

This summer you may be selecting an ornament for your garden—as the focal point of formal landscaping, or perhaps to accent an informal corner. If so, you should know something about the best materials and finishes.

For outdoor art, the most durable—and expensive—materials are bronze and marble. One of bronze's charms is the soft green patina it develops after several years—or much sooner in salt air. Marble, on the other hand, contrasts strikingly with formal greenery. It may be a bit more expensive than bronze if the ornament is intricately carved. Example: One life-size statue costs \$2,250 in bronze, \$2,500 in marble.

### Lead and limestone

Another durable material is lead, which weathers to pale gray. It can vary considerably in quality.

Italian lead work is finished as carefully as bronze—and costs almost as much. For a suggestion of the past, you might like English reproductions in lead of 18th-Century garden pieces. Or, for a considerably lower price, there are domestic figures in lead.

Italian limestone, imported in large quantities, is usually well carved. But there's disagreement over how well the soft, porous, rough-grained stone lasts in the U.S. climate.

**Buying pointer:** Inspect chasing and carving in statuary closely to determine quality of craftsmanship.

### Special orders take time, money

You can have sculpture custom-cast if you want to commission an artist to execute something to your own taste—a figure of a child, say. Apart from the sculptor's fee for an original, you would probably pay a foundry \$750 to \$1,000 to cast and assemble a bronze figure 3 ft. high. An abstract work of similar size might cost less.

Only a few foundries do such work; so it may take several months.

**Fountains are also popular.** If you want to convert a sculpture to a fountain, you can buy electric circulating pumps for \$25 to \$60, depending on capacity. With other fixtures and labor, the bill might run into hundreds.

**A variety of statuary equipped as fountains is available.** For example, a 42-in. reproduction of Paolo's Goose Girl is \$2,000 in bronze, \$1,000 in lead.

**For a look at what's available in garden ornaments,** write for catalogues from Pompeian Studios, 169 Lexington Ave., New York 16; Florentine Craftsmen, Inc., 479 First Ave., New York 16; or Erkins Studio, 8 West 40th St., New York 18.

### Travel Dept.

The International Olympic Committee has set Oct. 11-25 for the 1964 Olympic Games in Tokyo. Several more hotels will be erected in the Japanese capital by then, but early reservations for the Olympics are advisable . . . Tokyo's newest luxury hotel, the Palace (on site of former famed Hotel Teito in front of Imperial Palace), opens Oct. 1 this year. . . A new slide converter lists clothing sizes for shopping in Europe (free from Icelandic Airlines, Dept. B, 630 Fifth Ave., New York).

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## If it weren't for trucks, your milk would stay right here

No trucks, no milk for your breakfast.

In fact, no breakfast.

100% of milk deliveries involve a truck somewhere along the line. The same holds for eggs, bread, bacon, coffee, jam. And toasters, stoves, refrigerators. And the breakfast table and chairs. And the kitchen sink.

Food is only one field that would come to a standstill without trucks. Almost anything you can think of, got

where it is with the help of a truck.

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**Chemstrand® nylon • Member  American Trucking Industry**

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# Transit ills aren't always fatal

As urban transit becomes an increasingly severe nationwide problem, city officials are taking a closer look at the solutions developed by Philadelphia and Cleveland

Across the country, mass transportation within metropolitan areas has become an increasingly agonizing headache: As traffic has shifted away from public transport to private automobiles, mass transit systems have declined.

There's nothing about greater Philadelphia or Cleveland that relieves them of such worries. People drive automobiles there just as they do everywhere else. Yet these two regions boast remarkably successful mass transit systems—one privately owned and one owned by the city—that continue to attract riders.

This isn't to say that the nation's transit companies need only copy Philadelphia and Cleveland and their troubles will be over. But in an industry that has fallen on exceedingly gloomy times, there still are a few bright spots.

**Progressive decline.** Since the end of World War II more than 300 communities have lost all their public transportation. Elsewhere service has been slashed, equipment has aged to the point where it is often dirty and sometimes breaks down, and fares have inexorably risen. According to the American Transit Assn., the nation's urban transit systems carried only 7.5-billion revenue passengers in 1960, as contrasted with 12.9-billion in 1951.

An argument rages over whose fault this is. Have these things happened because of the private automobile's growing use, or do more people commute by car because of mass transit's decline? Whoever started it, the two trends now feed on each other, forcing the industry into deeper trouble.

**Symptoms.** Two weeks ago the New Haven RR finally filed for reorganization—a move brought on largely by huge, mounting commuter deficits. Next week, the Chicago Transit Authority, after having all its money-raising proposals turned down by the recently adjourned state legislature, will add a 5¢ transfer charge to its regular 25¢ bus and elevated-subway fares.

This is the first step in easing the

Chicago Transit Authority's expected deficits of \$5-million in 1961 and \$6.5-million for 1962.

In New York City, the Transit Authority this week submitted a \$283-million budget, most of which would be used to replace subway cars more than 35 years old. The New York agency, in an earlier plea for funds that was pigeonholed, said it was "facing an acute transit crisis."

**Washington alert.** Meanwhile, the Kennedy Administration, disturbed by the urban transportation picture, has authorized a study to determine what role, if any, it should play. And Congress has just approved as part of the new housing program a \$50-million fund that can be used to furnish one-year low-interest emergency loans for the purchase of equipment and facilities for essential mass transportation service. But this is viewed as an interim measure until the Administration's program is formulated.

Meantime, it may be instructive to look at Philadelphia and Cleveland as exceptions to the rule that transit systems are languishing.

## I. Philadelphia's answer

Mention Philadelphia to a mass transportation man, and the chances are he will think of the city's Passenger Service Improvement Corp., a nonprofit company composed of representatives from the city government, business community, Pennsylvania and Reading railroads, and 23 railroad unions.

This corporation, which operates almost entirely within the city limits, is the outcome of an experiment to see if lower fares and improved service could induce commuters to switch from their cars to rail transit—thereby saving the city from traffic chaos. The experiment is generally considered a thumping success.

**Red Arrow.** But beyond the city limits—and subsidized by no one—is the Philadelphia Suburban Transportation Co., generally known as the Red Arrow.

The company operates 229 buses and 34 rail cars in three suburban Pennsylvania counties and a small section of Philadelphia. Starting from its major terminus on the western edge of the city where it connects with city rapid transit services, its lines fan out in a 20-mile radius to the north, south, and west—covering a heavily populated area containing more than a million people.

This small-sized company appears to have found the formula for success. Last year earnings jumped 8% to \$279,000 on revenues of \$5-million. And the company predicts that earnings will climb another 8% this year despite a substantial wage increase.

**Community service.** Aside from increasing profits, the most noteworthy thing about Philadelphia Suburban is that its ridership is increasing, too. At present it carries approximately 120,000 riders a day; this includes a 3% increase over last year, plus 20,000 riders gained through acquisitions. "The thing that's made us successful, I think," says Pres. Merritt H. Taylor, Jr., "has been our thinking that we're out to do the best we can for the community."

These are not just idle words. The company acts as if it were wholly dedicated to good, frequent, and reliable service. In fact, Red Arrow has made no appreciable cuts in service for three years. Like other transit companies it had experienced rapid loss of passengers and like others, it had cut service accordingly. But unlike many other lines, it did something to stop this vicious circle.

**Modernization.** The company is continually getting new equipment and refurbishing older equipment. Since World War II, it has put an average of 10 new buses into service yearly. Last summer it put 10 air-conditioned buses on a heavily traveled line—and patronage increased 10%. As a result, service was increased. Now Red Arrow has a fleet of 30 air-conditioned buses.

Taylor keeps an eagle eye on scheduling and ridership. "Three

times a year we make a thorough count of all the people using our system for a week," he says. "That way we know exactly how each line is making out."

When the Pennsylvania RR went on strike last fall, Philadelphia Suburban's high-speed rail line was swamped with passengers. When the strike ended two weeks later, Taylor sensed he would keep some of these people, so he left some of the added equipment in service. "Today it's still in service and a lot of those people are still with us," he declares.

Another factor in Red Arrow's success is the care taken in personnel selection. Explains Chmn. Merritt H. Taylor, Sr., "We've enjoyed very good labor relations over the years—with never a work stoppage—and this is reflected in our employees' conduct when they're working. They're salesmen, you know."

**Higher fares.** Although the company's attitude toward service differs from many transit companies, its tariff policy does not. It has not refrained from raising fares; in fact there have been two small increases this year. The minimum cash fare is now 23¢, and it can go up to 60¢, depending on the number of zones traveled.

Both Taylors firmly believe that good equipment and frequent, reliable service is, in the minds of many people, more important than the fare charged. "People are willing to pay a fair price for a good product," they insist. "And we're doing the best we can to improve our product."

**Rail lines vs. buses.** Philadelphia Suburban's operations differ from most other suburban lines because it has both bus and rail lines. The younger Taylor says, however, that maintenance and operating costs of these rail lines are "prohibitively high"—93½¢ per mile compared with 47.7¢ per mile for the buses. He hopes to get rid of the burdensome costs of maintaining track and electrical systems by converting three of the rail lines into bus routes.

"We have great assets in these rights of way," he says. "Once we get permission from the Pennsylvania Public Utilities Commission, we'll take up the track, pave them with blacktop, and have private bus roads. Buses will have more flexibility, and the people on the lines will get more frequent and better service since other bus routes will be using our private roads."

## II. Cleveland's system

In the mass transit industry, Cleveland is something of a Mecca. Officials from cities the country over



**The Red Arrow.** Privately owned Philadelphia Suburban Transportation Co. runs bus and rail lines carrying 120,000 riders a day, reports rising ridership and profits.



**Ready for 5 p.m. rush.** Buses of publicly owned Cleveland Transit System run on express schedules. System has stayed solvent by modernizing, expanding service.

journey there to inspect operations.

The Cleveland Transit System, though publicly owned, does not receive a subsidy from taxpayers, and no tax money was used in purchasing it from the original owners, the Cleveland Railway Co., in 1942.

**The rider pays.** Despite the fact that it must live on its farebox revenues, it has still managed to keep a quite modern fleet of buses, retire all its trolley routes, and build a high-speed rapid transit line. The rider has had to pay for this, however, and since 1946 the fares have gone gradually from 10¢ a local ride and 15¢ an express ride to the current 25¢-30¢ fare structure. The latest increase of a nickel went into effect July 1.

Authorities in Cleveland credit much of the success of CTS to Donald C. Hyde, its general manager. For a system to break even on its operating revenues, he says, all efforts must be made to entice riders to the system. "The rider is interested only in having a bus on the street to take him where he wants to go when he wants to go."

Downtown center, Public Square, evening rush hour crowds pour into buses (pictures) parked in lanes set aside just for their use. Once loaded, they roar out of town on express schedules. In many cases their first stop is 10 or more miles away. Much of the route is on the city's modern freeway network, making possible extremely fast schedules.

**Expanding service.** CTS has used all sorts of tricks to keep most of its old riders and attract new ones. Several years ago, for instance, a downtown loop route was set up to transport riders from a huge municipal parking lot on the lakefront to the downtown business area. The loop fare was—and is—a dime, and

the service has worked out far better than expected. The bulk of the traffic is not from the parking lot, though, but from shoppers and downtown workers who ride only a block or two.

In addition, bus lines have been routed to large industrial plants such as Thompson Ramo Wooldridge's whenever there's enough demand for service. A number of years ago, when the Cleveland Indians were a big draw at home and traffic jams were an almost nightly occurrence after games, CTS also instituted its "baseball specials." These were express runs from some 17 neighborhoods to the lakefront stadium and return after the game.

Among Hyde's management techniques are frequent observation trips for key operating personnel to other cities to see what they are doing—a sort of reverse compliment in Cleveland's case. One exception was a New York City garage that Hyde didn't want his men to see. It had cost \$13-million, and he didn't want his people to get any ideas of what they could do with so much money.

**Financing.** CTS purchased the Cleveland Railway Co. properties in 1942 for \$14.5-million after lengthy negotiations. The system at that time consisted of 22 trolley lines, 33 bus lines, and one trackless trolley route. Much of the equipment was dilapidated, and much badly needed maintenance had been deferred.

Cleveland issued revenue bonds for \$17.5-million to cover the purchase and necessary modernization. A charter amendment was passed that established the transit board, a group of five officials who are appointed by the mayor and confirmed by the city council. Once appointed, the board members are almost completely free of political control. They

have total responsibility and authority for policy, operation, and finances of the system. The only things for which they must obtain city council approval are financing and selling or liquidating the system.

World War II and its shortages made it almost impossible to undertake the modernization program until 1946. However, gas rationing also brought riders to public transit in great numbers. During the war years, CTS built up its equipment replacement funds and managed to reduce its indebtedness.

In 1944 CTS refinanced at lower rates of interest. It also borrowed an additional \$6-million for its modernization program. The entire \$23.5-million was repaid in 1952, ahead of the original due date. Today CTS has approximately \$2.5-million in the bank for new buses.

Following the war years, CTS embarked on a program of replacing trolleys with buses. In 1954 the last trolley line was abandoned. There are still several trackless trolley lines, but Hyde says their days are numbered.

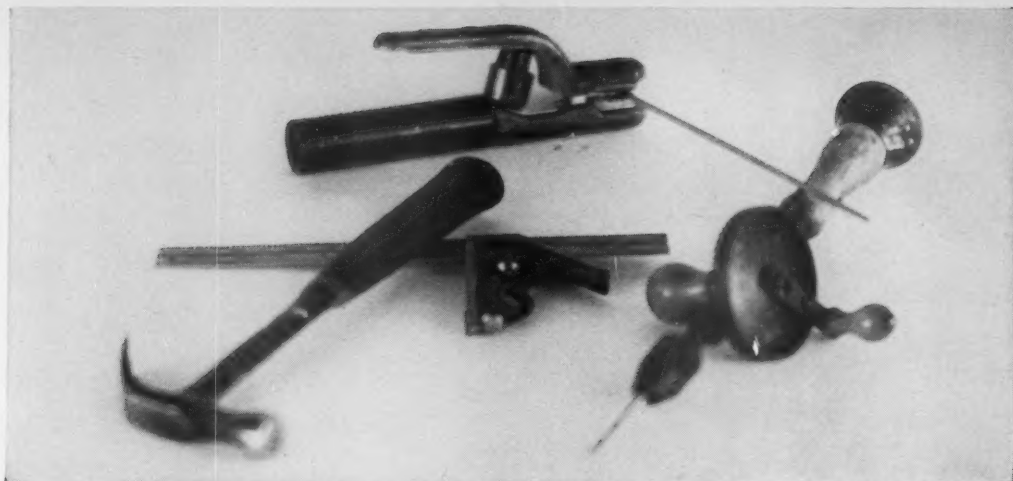
**Enter rapid transit.** In 1949 efforts to get major financing for further modernization and construction of a rapid transit rail system culminated in the sale of \$29.5-million in mortgage revenue bonds to Reconstruction Finance Corp. The rapid transit was built in two sections, an east side line and a west side line passing through the Cleveland Union Terminal. An extension of the west side line has since been built. The line parallels railroad rights of way, and allows a rider to cross the city through the downtown section in half an hour.

As the rapid transit was introduced, many bus routes were changed to funnel as many riders as possible into the new system. Parking lots were also built at a number of outlying stops to encourage Clevelanders to keep their cars out of the downtown area.

These moves have been successful to the point where Hyde said rapid transit revenue is covering all its operating and maintenance costs, though some debt service requirements must be made up by the rest of the system.

Now Cleveland is planning to extend the rapid transit line to Hopkins Municipal Airport. The route has already been surveyed. Up to the present, money has been the chief problem, but Cleveland hopes to solve this with federal government help. It is one of two cities so far that have applied for money under the newly passed housing bill. Philadelphia is the other. **End**





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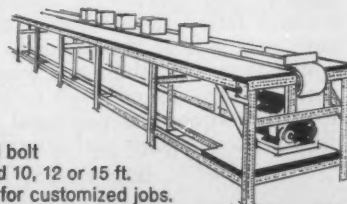
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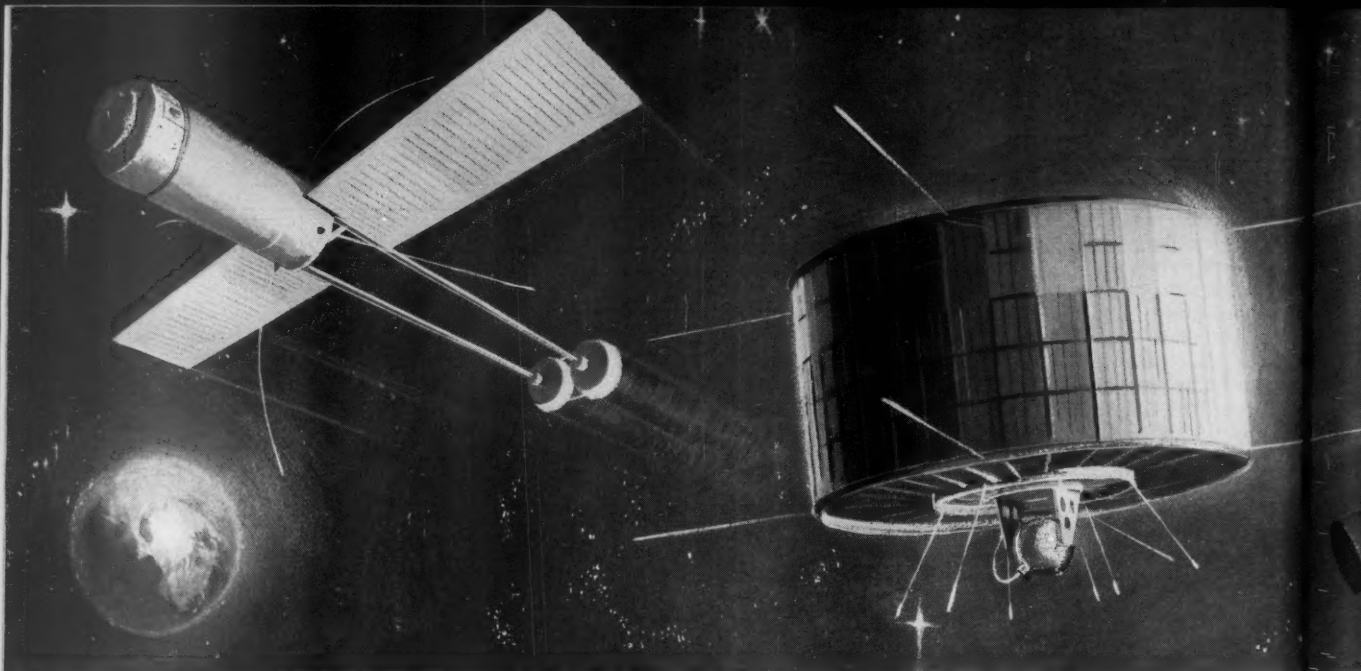
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Electricity from PACKAGED CHEMICALS

Electricity from an ATOMIC REACTION

## RESEARCH

# Finding ways to power satellites

**NASA's highly successful Transit IV-A gets its electricity from atomic reaction. It's an important milestone in the development of reliable energy to power spacecraft.**

The U. S. made its first try for a triple play in space late last month.

Three satellites were mounted in tandem atop a Thor-Able-Star rocket as it stood on its pad at Cape Canaveral. The trick was to see if they could be launched as a single multiple payload—then separated into independent orbits once they had been ejected clear of the earth's atmosphere.

Despite a near-perfect firing, National Aeronautics & Space Administration scientists were not completely successful. They were able to put all three satellites into a neat, almost circular orbit. But an equipment failure prevented the separation of two of the three from each other. GREB (a sunlight measuring satellite) and INJUN (a radiation scanner) failed to part after they were ejected from the payload.

**Milestone.** The third and largest of the triplets—Transit IV-A (center, above), an airborne navigational signal station for ships and aircraft—was a complete success, however.

And, apart from its own value as another step in our space effort, it should have a tremendous impact on future space satellite design.

The reason is that the electricity that powers Transit IV-A comes from a radioisotope-powered heat-to-electricity generator—one of the three most promising types of power source (drawings) for space vehicles. The 4½-lb. generator is rugged, and has an estimated operational lifetime of at least five years.

**Power search.** The firing of the first atomic-powered electricity generator highlights the efforts—by both industry and government—to develop new, compact, and reliable sources of electrical power for use in space. There have been dramatic developments—such as the early tests on multi-million-pound booster rockets (BW—Feb. 20'60, p59) and the testing of surveillance instruments and cameras for detection work (BW—Jun. 4'60, p30).

But over the long term, man's conquest of space probably is more

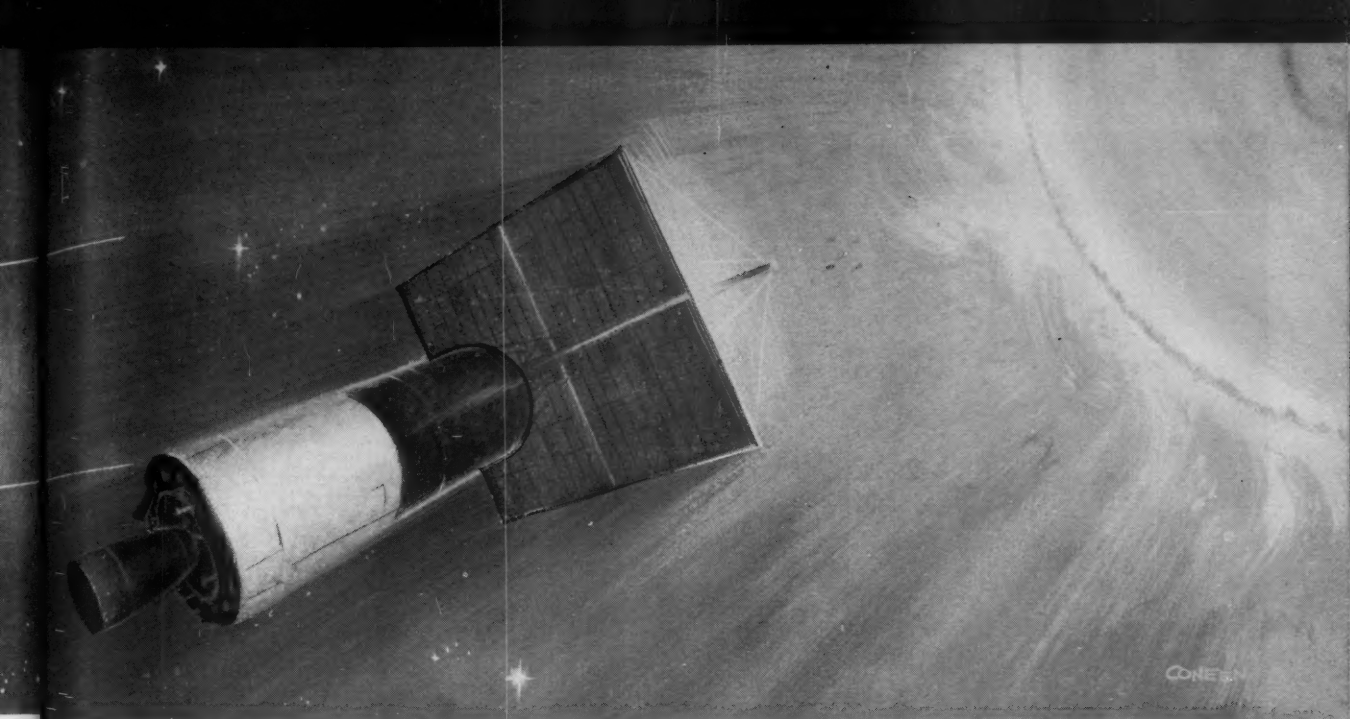
dependent on other things. High on the list of musts is an adequate energy source. The longer and more complicated any particular mission is, the greater its energy needs.

If the energy load were all that had to be considered, engineers could connect together enough conventional energy systems to supply the electricity to do the job. But for every additional pound of payload that the vehicle engineer designs into his space system, the rocket designer must add more thrust to the first-stage rocket booster. So electricity has to be supplied with as little extra weight as possible.

**Three choices.** For unmanned missions at least, no single system will be counted on to supply electricity for U.S. space probes. Designers will weigh a number of systems against one another, and then pick the one that seems best for each probe.

Basically, they will have three choices:

- Chemical systems, which supply



## Electricity from SOLAR HEAT

energy from the thermochemical process of burning a fuel or the electrochemical process of discharging a battery.

- Atomic systems, like the SNAP systems—one of which is in Transit IV-A. These gain their energy from a nuclear reactor or from the decay of radioisotopes.

- Solar systems, which depend on energy produced through the collection of the sun's electromagnetic radiation.

**Factors.** The choice will depend in part on the requirements of the mission—how much reserve energy the satellite must have available at any given time, how much physical protection it will be given from the sun's radiation, duration of mission time, and other factors. But the choice also will hinge on a system's own characteristics.

For example, chemical energy will be the prime candidate in most short (one-day) space missions because it is easily available, reliable, and rugged. In such missions, when the power requirements are less than 1 kw., engineers probably will select the dry cell.

But this could change, as technology advances. Ionics, Inc., which is working under an Air Force Systems contract, announced last week that it has developed a fuel cell for space use that gives up to 40 watts of energy per pound of weight.

**Limitations.** For longer missions, solar energy is currently the preferred energy system. But the Ionics' fuel cell concept may also have real potential here, too.

Solar energy concentrates radiant energy from the sun to produce heat for conversion into electricity. It has been used successfully on a number of space vehicles.

But solar energy systems have limitations, too. They would have little or no value for probes in the direction of Mars, because their already-low energy output decreases as they move away from the sun. And they must be protected from severe temperature changes and other environmental conditions (such as heavy radiation).

The coupling of a lightweight fuel cell to a solar energy system, however, may well extend the potential for this source of electricity in space. Energy collected through a satellite's solar cells might be used to recharge its chemical fuel cell system thus providing relatively high power.

**Odds on atom.** For large power requirements over a long period, however, the atom eventually may be an even more practical source of energy in space. That is why the Atomic Energy Commission is pushing a series of SNAP auxiliary power systems, such as the one aboard Transit IV-A.

NASA officials reportedly are so pleased with the way Transit IV-A's atomic generator is working that they may design a larger, but similar, system into the Surveyor (one of the unmanned vehicles planned for soft moon landings) and into the Mariner (the spacecraft by which scientists hope to learn more about Venus next summer).

**Why plutonium.** The nuclear gen-

erator on board Transit contains plutonium-238, a radioisotope that in the process of spontaneous decay creates heat.

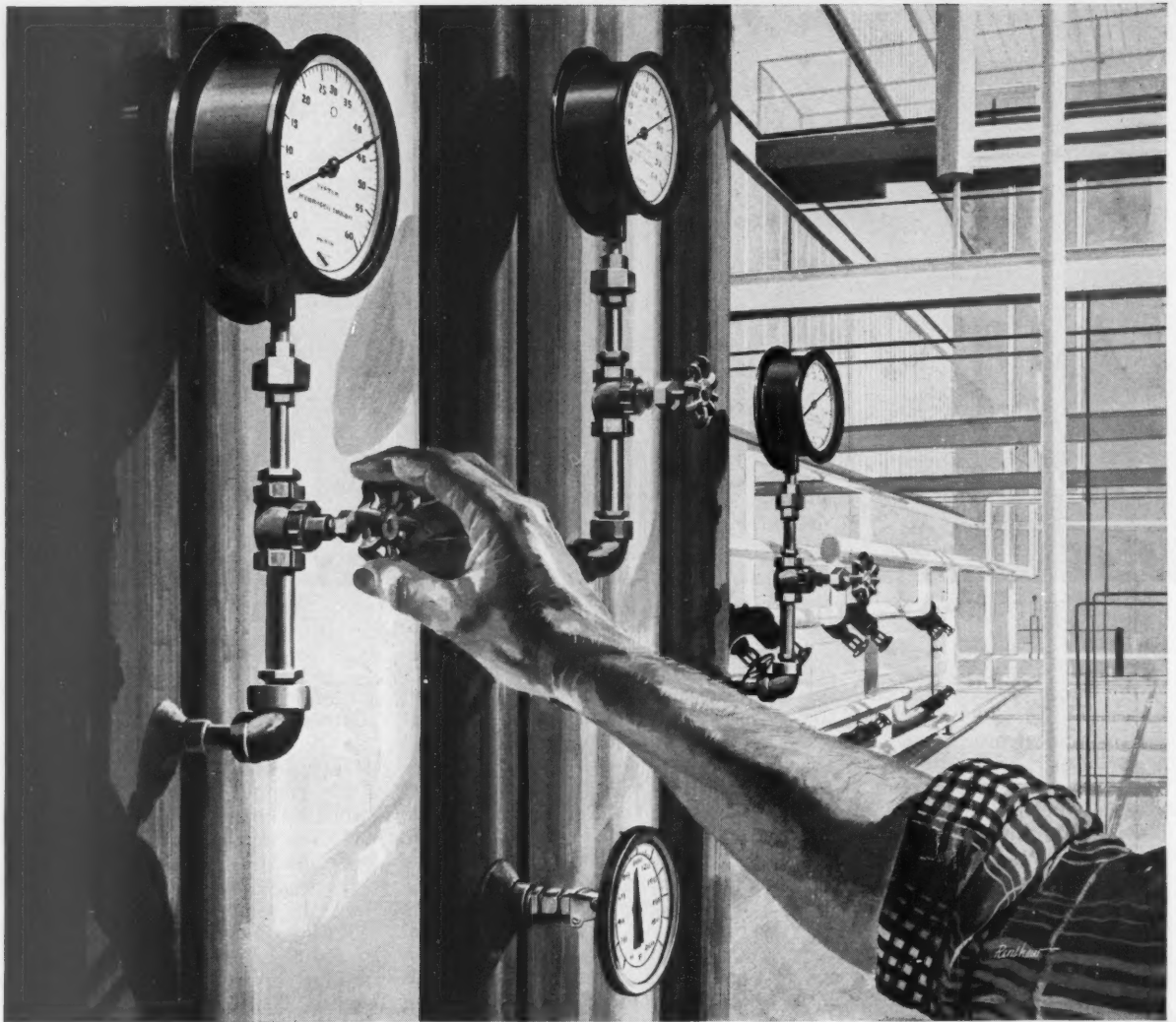
Development men admit they probably could have boosted Transit IV-A's generator output to 30 to 40 watts by substituting another radioisotope—such as curium 242—for the plutonium. But, one scientist points out, as it stands this grapefruit-size generator in five years will produce as much electrical energy as could 7,000 to 8,000 lb. of dry cells.

**Industry's role.** From the very beginning, industry has been closely connected with the development of atomic energy generators. In March, 1956, Martin Co.'s Nuclear Div. got the SNAP-1 contract for the development of the first radioisotope-fuel space power unit. Westinghouse Electric Corp. and Minnesota Mining & Mfg. Co. are developing the thermoelectric materials to make direction conversion possible in the SNAP III version.

In the development of SNAP II—a small atomic reactor—Atomics International Div. of North American Aviation, Inc., and Thompson Ramo Wooldridge, Inc., have played major roles. And Aerojet-General Corp. holds the prime contract for the early work on SNAP-8—a 30-kw. unit that AEC is developing in conjunction with NASA.

SNAP 10-A, a 500-watt atomic auxiliary power unit—is tailored to fit power and weight requirements of an Air Force satellite system. It should be ready for flight-testing early in 1963. **End**





## Keep Informed

The performance of many unseen production operations can be controlled properly only after vital inside information is known. In numerous industries, the pressures and temperatures inside tanks, piping, boilers, and other pressure vessels may be the hidden facts that must be measured accurately to maintain high standards of processing. Manning, Maxwell & Moore produces measuring instruments—Ashcroft gauges, thermometers and regulators—that the chemical, petroleum, power, and many other industries

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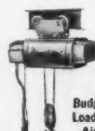
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# In research

**BW**

## MIT's powerful continuous magnetic field gives physicists an important new tool

The National Magnet Laboratory at MIT last week announced creation of the largest continuous magnetic field ever produced. Rated at 126,000 gauss—the unit by which magnetic intensity is measured—the field was produced by a grapefruit-sized magnet built by MIT's Dr. Henry H. Kolm.

For physicists, this new lab tool is what a higher-power telescope is for astronomers. It will provide a much closer look at the energy levels of various materials, and will also allow, for the first time, a real insight into the physical characteristics of metals.

High-power magnets also have potential in low-temperature research, should make feasible new studies in such fields as solid state physics, plasma, acoustics, biology, and molecular electronics. In solid state physics, for example, an understanding of what fundamental characteristics go together to make a semiconductor would help engineers in developing new materials with specific frequency characteristics. In biology, magnetic field studies are sought to give insight into basic genetics, or into the working of the optic nerve. In molecular electronics, the understanding of how to purify the crystalline structure of steel or other crystal materials should make feasible materials 1,000 times stronger than they are today.

These applications are not too far off. According to Kolm, it is possible that in five or six years a magnet of 1-million gauss can be created, in conjunction with super-conducting materials (BW—Apr.22'61,p75).

This is the point at which a manmade magnetic field will be able to compete with nature's commonest magnetic field—the magnetic field set up at the nucleus of most atoms. If a manmade magnetic field can be set up to overcome the magnetic field of the atom's nucleus, it should be possible to understand better basic relationships within the nucleus.

## Woods Hole group dislodges first chips of deepest layer of earth's crust

The oceanographic research vessel Chain hove into Woods Hole, Mass., last week carrying, as part of its latest haul, rocks from the deepest layer of the earth's crust. This is the first time that scientists have been able to get their hands on samples of the thick layer of rock lying just above the Moho Discontinuity. The Moho is a zone or surface regarded by seismologists as the lower boundary of the earth's crust. And there's good reason to think that a careful analysis of the "ultra basic" rock that lies just above it will reveal important things about the nature of the earth itself.

Researchers on the Chain made their find in the Puerto Rico trench—a trench that lies under three to four miles of water about 100 miles north of the island of Puerto Rico. Dr. J. B. Hersey, chief scientist on the

cruise, says that the Woods Hole group was trying a new dredging technique at the time the discovery was made. But the first ultra basic rocks came up accidentally on the frame of an underwater camera that was being used to photograph the trench bottom.

A quick first survey of the samples was revealing. They have a rough surface with some sharp edges. Their natural color, apparently, is light green, but when exposed to water they turn rusty black with an encrustation of manganese oxide and iron rust.

## Basic research awards by Air Force totaled \$21.5-million in last fiscal year

More than \$21.5-million in grants and contract awards for basic research were made by the Air Force during the fiscal year that ended June 30. About three-quarters of the 460 grants and awards went to colleges and universities; the rest were divided fairly evenly between non-profit research institutions and industrial laboratories.

Among the larger awards renewed by the Air Force were ones to MIT (the mechanics of metals), to Florida State University (nuclear physics), to Brooklyn Polytechnic Institute (electromagnetic theory), and to the University of Illinois (diffusion in semiconductor materials).

Major new grants included: Stanford University (radio astronomy), Westinghouse Electric (crystallogenics), and the University of Illinois (the theory of super-conductivity).

## RCA will build space capsules to house ion-propulsion engines

Radio Corp. of America has been selected by the National Aeronautics & Space Administration to build seven space capsules costing around \$200,000 each to test ion engines in 1962. Three of the capsules will be used in ground testing, and four for 4,000-mile ballistics flights.

The capsules are part of a development program whose goal is to use ion propulsion—energy from electrically charged atoms—to power upper stages of space payloads. Theoretically, this could triple payload weights possible under conventional propulsion.

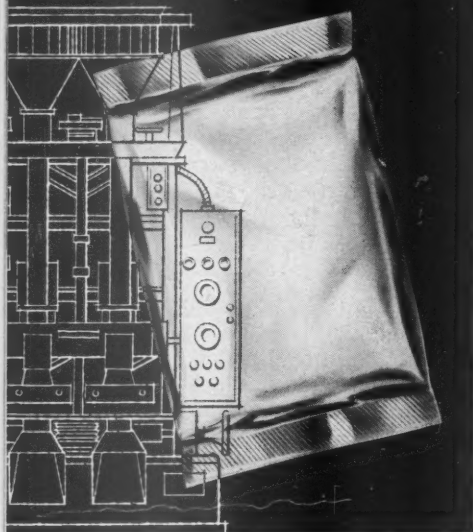
First tests will be made with two ion engines riding on a Scout vehicle. One will be cesium-fueled and is being developed by Hughes Research Laboratory; the other under development by NASA's Lewis Research Center will be mercury-fueled.

Fourteen test flights on ion engines are scheduled between 1962 and 1965 when NASA hopes to send a 60-kw. ion engine into orbit. First orbital flight is slated for 1963. Five different types of ion engines are currently under development, four for NASA and one for the Air Force.

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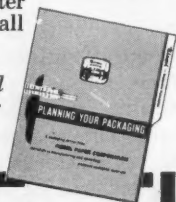


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## BUSINESS ABROAD

# Slow death faces Russian caviar trade

**Nature, cutthroat Russian poachers, and river pollution threaten extinction of sturgeon—but meanwhile soaring prices will cut deeper into gourmet pocketbooks**

When the Czars elevated fresh caviar to the court menu, long before the Russian Revolution, they gave the delicacy almost instant fame. Pope Julius II tried it in 1520. Shakespeare spelled it caviare.

Today, at an average of \$4 a spoonful, fresh caviar is moving faster than ever across the tables of New York's "21" and other swank U.S. restaurants. On the housewife level, New York has five Caviarteria—food specialty shops that feature caviar.

"More people, more money, more sophistication," explains a leading U.S. buyer of caviar. "Now, everybody's a gourmet."

The hour for caviar, however, may be late. Russian sturgeon, with the caviar it bears for the world's connoisseurs, is facing extinction. The Caspian Sea's level is dropping. Russian poachers are moving in. And the Volga, Don, and other rivers, no longer free of hydroelectric projects and pollution, are now hostile environment for the huge, homely sturgeon.

Caviar brings in only a modest amount of foreign exchange—less, probably, than \$8-million annually. But the Russians are desperate to keep up with the demand. For one thing, any foreign exchange that can be earned is important for the Kremlin's coffers. For another, the Russians themselves love caviar—and in Russia, the foreign buyer usually comes first. This year, while the Soviets have done almost as well as usual in meeting overseas demand, caviar often has been unobtainable in Moscow's stores.

**Nature, and industry.** The slow hand of nature is working against the Soviets. The Caspian, home for some 80% of the world's sturgeon-type fish, has dropped 7½ ft. over the past 39 years. The drop has altered the Caspian's mineral content, and has also dried up important shoreline breeding grounds.

The blame is not all nature's, though. Because of new hydro power stations and irrigation projects, Russian rivers now feed less water into the Caspian and Sea of Azov, another sturgeon habitat. The rivers, too, are major spawning grounds. Millions of fish that have not been trapped to die in muddy ponds are blocked by dams from getting to their breeding areas. By Soviet estimate, some 80% to 90% of Russia's sturgeons may go the way of the American buffalo—unless something is done and soon.

**Brigands on the side.** On top of all this, Soviet fishing organizations must deal with poachers as cutthroat as any ever found in the West. Already, Russian brigands after illegal caviar catches have attempted murder of at least 12 Soviet fish wardens and committed assault and battery against another 50.

To stress the seriousness of poaching, the Soviet press departed from its usual policy of suppressing crime stories to relate this episode:

While searching for poachers on the Volga, fish wardens in a small boat approached a powerful launch operating at night near the Volga power station. The launch switched on a blinding searchlight, then rammed the fish wardens' boat and cut back and forth through the men who had been thrown into the water in an attempt to catch them in the propeller. The poachers got away—but not before their launch was identified as the Stremitelyn, the power station's own launch, presumably operating with the collusion of power station officials.

"It's caviar that brings in the money," the Soviet press commented, reporting that the Kuibyshev City Cooperative Trade Trust alone bought from poachers enough caviar to account for illegal extermination of 1,000 sturgeon.

**Pollution problem.** The Soviet caviar industry, with headquarters



at Astrakhan on the Volga Estuary of the Caspian Sea, must cope also with factory abuses of antipollution laws. Russia's oil refineries, chemical plants, and paper processing factories discharge millions of cubic feet of pollution into the Volga each day. Although this poisons fish, many factory managers prefer paying fines to laying out the capital for antipollution equipment. Some factories provide for fines in advance when making up their budgets.

**Limited hopes.** From the first, the Russians anticipated problems with the fishing industry as the result of expansion on other industrial fronts. As one means of coping with them, they planned fish ladders for the dams. With money, manpower, and materials scarce, however, fish ladders have had a low priority; and many have not been constructed.

Even when they are finished, they won't help the caviar industry. The sturgeon has not evolved so far from its prehistoric ancestors as have other fish. It still hugs the bottom, and doesn't jump.

Thus, the Russian fishing trust will continue for some time its present practice of carrying thousands of sturgeons around dams by boat and over them by airlift. This answer has one obvious handicap—too many sturgeons to handle. The best hope now for replenishing the fish population is with large-scale plant breeding.

This idea, however, has had the same fate as fish ladders—low priority, and consequently a small number of breeding plants. At present rates, the plants aren't enough to maintain the species at its present level, much less rebuild the depleted numbers.

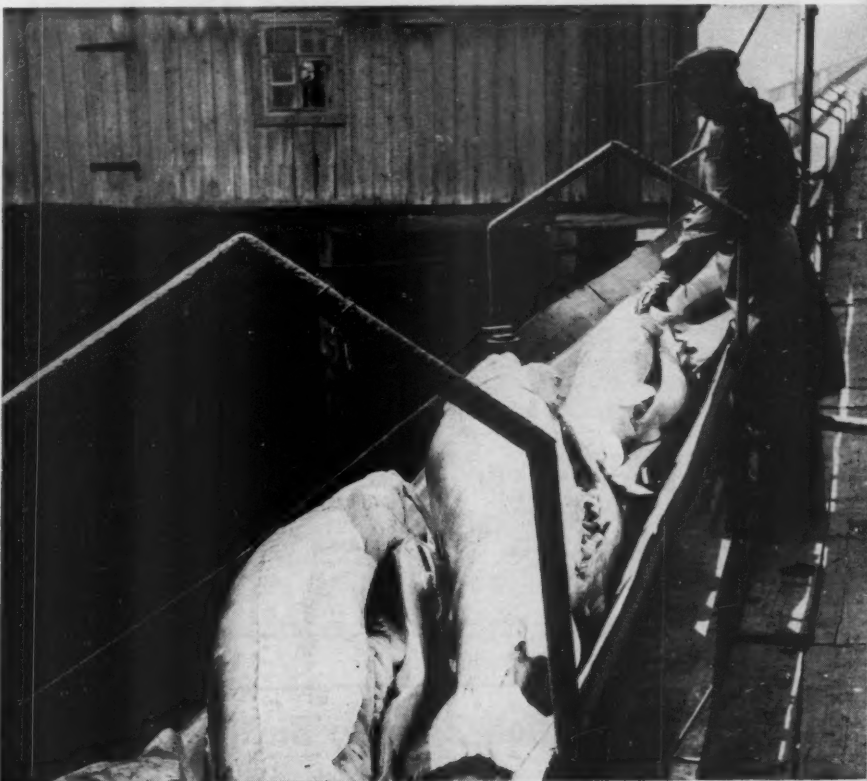
The sturgeon population may reverse its downward trend, however, as breeding plants delayed in construction eventually come into operation. U.S. caviar buyers are particularly hopeful that the long-planned sturgeon fishery at Stalin-grad will start up this year. Its annual goal will be 2-million fish.

**Prices headed up.** Of three types of sturgeon, the Beluga yields the caviar most popular with the world's gourmets. Beluga is larger than ordinary sturgeon or the Sevruga type, running in rare instances as high as 1,500 lb.—of which 20% may be caviar. Beluga caviar commands the highest price, having risen in retail price from \$10 per lb. before World War II to \$26 five years ago and a current price tag of about \$40 per lb. Other caviar costs half that, or less.

Prices are almost bound to go still higher. Since sturgeons take anywhere from eight to 80 years to pro-



In U. S. market, best U.S.S.R. caviar retails at \$40 a lb., four times pre-war price; with demand greater than Russians can meet, prices may go up. Serving (on plate, above) costs \$7.50 at New York's Forum of the Twelve Caesars.



At Astrakhan on Volga, center of Russian caviar industry, conveyor transports sturgeons to caviar-balyk plant (balyk is a cured fillet of sturgeon); but mechanization can't save industry unless artificial breeding plants replenish stock.

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duce caviar (depending on the type of sturgeon), the most drastic consequences of today's fiasco in sturgeon fishing are yet to be felt on the world and Russian markets.

"We are fishing at present the generations that came down the natural spawning fields into the sea before construction of the dams," one Soviet critic complained in a Moscow newspaper. "What will happen at the end of this Seven Year Plan? And at the end of the next one?" The official answer, of course, is that artificial breeding plants will do the job, especially if the government licks the problems of poaching and pollution.

**Competition.** The Russians have no monopoly on caviar. The Iranians, in fact, resent the term "Russian caviar." Under a franchise granted in 1893, the Russians fished, processed, and exported all Iran's share of Caspian caviar. Nine years ago, the Iranians refused to renew the Soviet concession. They nationalized the caviar company and went into business for themselves.

"We taught the Iranians the caviar business but they do not have our quality," Pres. I. S. Stepanov, of the state trading organization Prodnorg, told Business Week. "Our processing is better and our timing is better—we know when a sturgeon is ready." Taken too early in life, a sturgeon yields underdeveloped berries, as the eggs are called. Too late in life, the roe's berries are too soft.

"Russian caviar is superior," says Brig. Gen. Malcolm K. Beyer, retired Marine and buyer of caviar for Iron Gate Products Co., Inc., supplier of "21" in New York and other U.S. restaurants. "The Russians know how to process." The Iranians export more caviar to the U.S. than the Russians. But they still have not mastered such delicate steps in processing as refrigeration.

The U.S. is not Russia's best caviar customer, although American quota buyers—who would like to be that—are allotted some 24 to 30 tons a year out of a total export quota of about 235 tons. Russia's regular customers also include France, Britain, West Germany, and east European countries. Sales are also made to Latin America and Asia.

**Plans and Politics.** Meantime, the U.S.S.R. has given wide publicity to a futuristic plan to raise the levels of the Volga and Caspian by channeling part of the Pechora and Vychegda rivers—which now flow north—southward into the Volga Basin. The plan has a political hitch. The Russians say the project is among those that must wait until the U.S. accepts the Soviet plan for disarmament. **End**

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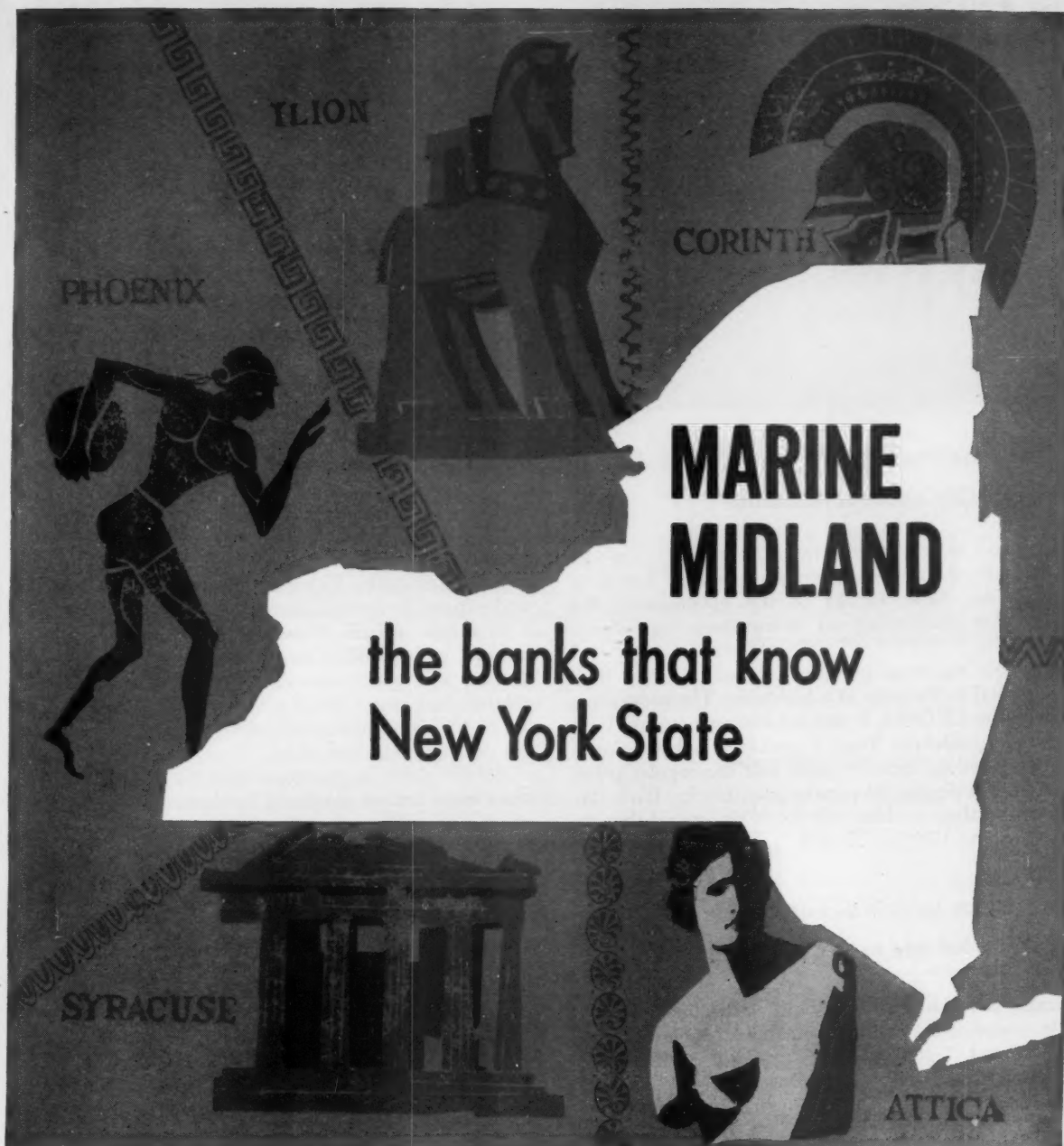
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## **Rolling supermarkets bring low-cost food to Mexico City's poorer residents**

In Mexico City's poorer sections, housewives don't go to the supermarket; it's just too expensive for their pocketbooks. Now, thanks to the government, the supermarket is coming to housewives—on wheels (picture).

The new supermarkets are designed to bring high quality food to the poor at a low price. The program is operated by CEIMSA, a government agency that buys from food producers. Then it packages and distributes the items, selling them at about half the regular price.

CEIMSA operates 64 supermarket trucks. Each day they set up shop in about 326 locations around the city and sell some 150 tons of food.

## **Chicago bids for role as world trade center by holding fair and marketing conference**

Chicago is making a strong bid to become a world trade center. Next week it will hold concurrently an International Trade Fair and a World Marketing & Inter-American Industries Conference.

At the fair, some \$70-million worth of products will be displayed, and at least \$30-million in wholesale business is expected to be transacted. Moreover, Chicago this year has expanded the fair to include domestic producers who want to crack the foreign market, as well as overseas companies aiming at the Midwest.

## **Tidewater Oil takes Veedol to Britain, may also sell gasoline there**

Tidewater Oil Co. launched a major assault on the British market by announcing last week that it would begin retailing its Veedol brand lubricating oil in Britain.

A new company, Veedol (U.K.), Ltd., will handle Tidewater's British operation. Sales already have begun in London, and nationwide distribution is planned within the year.

In addition, spokesmen for Tidewater have hinted that the company may enter the British gasoline market sometime in the future. A final decision may be awaiting the completion of a new Tidewater refinery in Denmark. With an annual capacity of 1-million long tons, it will give Tidewater a major source of supply near the British market.

Tidewater's move will sharpen the already intense competition in the British oil market. Veedol was sold in Britain for a few years in the late 1930s, but sales were discontinued after the war. Over the last 30 years, Tidewater mainly has restricted its oil sales in Britain to bulk oil base stocks.

## **Eaton Mfg. sets up division to consolidate, expand overseas work**

Eaton Mfg. Co. of Cleveland this week formed a new operating division, Eaton International, to consolidate and expand its foreign operations.

In recent months, Eaton, which makes automobile, marine, and industrial components, set up in Western Europe as a prime manufacturer. It obtained a major interest in Eaton Livia S.p.A. of Turin, (BW—May 27 '61,p129), and a substantial minority interest in a British company, Eaton Axels, Ltd.

Before these acquisitions, Eaton's overseas operations were limited mostly to licensee agreements. Even so, the operations were large enough to bring in \$20-million last year in sales and royalties.

Industry sources think that with the setting up of a new international division, Eaton may be planning other major overseas acquisitions.

## **Air fares inside Western Europe to rise 5% starting Nov. 1**

Air fares within Western Europe will go up 5% on Nov. 1. Carriers agreed to the increase at a special meeting in Paris last week. No termination date was set for the boosts, which are expected to remain in force until the next general fare conference of the International Air Transport Assn. scheduled for the fall of 1962.

The higher fares will apply to all of Western Europe except Spain, Portugal, and Greece, and to Tunisia and Algeria.

Operational costs were one reason cited for the increase. A bigger factor is that most of the West European airlines are controlled wholly or in part by governments, and so are less interested in cutting fares than are their highly competitive U.S. counterparts.

Meanwhile, at an informal IATA meeting in London, North Atlantic carriers were getting together at mid-week for an informal discussion of various plans for reducing fares on the North Atlantic runs. These runs now are among the most competitive in the world, with 17 airlines offering jet service.

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# When forecasting outsmarts itself

The business recovery that began so smartly in the early spring has shown some signs of summertime fatigue (BW—Jul.15'61,p25). From these facts some business forecasters are drawing two completely opposed conclusions. Those who look at the strength of the first part of the upswing see a superboom ahead; those who look at the recent slower pace are already trying to fix the date for the next recession, which some see coming in mid-1962, others in late 1962, still others in mid-1963.

This effort to draw an exact road map into the future a year or more ahead is nonsense—whether the forecaster sees superboom or superbust ahead. It assumes that the future is foreordained. But the future is not something that exists; it is something that will be created—by policymakers in business, government, labor, and also by the daily decisions of millions of consumers and investors.

Efforts to forecast the business future are essential to modern business policy and planning, but the businessman must keep in mind that all forecasts of the business cycle have to be highly tentative. If the history of cycles teaches us anything—and it can teach us plenty, thanks to the painstaking researches of the National Bureau of Economic Research (page 58)—it should be clear by now that both the upswing and downswing of cycles can vary greatly in duration and intensity.

Each cycle is an essentially unique phenomenon

whose course cannot be predicted by laws of averages. And the reliability of predictions based on what is presently occurring diminishes rapidly as you move further out on the time chart.

An undue concern about the next recession (before we are fairly out of the last one) may result in cautiousness or timidity in business planning that will itself weaken the expansions. Likewise, blind faith in coming superbooms can lead to bursts of speculative activity that may unstabilize the economy, necessitate strong countercyclical policies—and lead to the premature demise of expansions.

Even if one could know something fairly definite about the farther future of the general economy, it would tell the individual businessman little about his own company's prospects. For another lesson that history teaches us is that a business cycle is not a simple, consistent phenomenon, in which all industries rise and decline together—but rather one in which many cross movements occur.

Whether individual industries—or, still more obviously, individual companies—go ahead or not is importantly determined by the drive, imagination, and pluck (or luck) of individual businessmen. A company that thinks it is helpless in the hands of the fates or the forecasters is heading for trouble; a company that thinks it can make its own future probably can—and thereby contribute significantly to the growth of the economy at the same time.

## The New Haven's dilemma

When the New Haven RR, after months of living on borrowed money, finally filed for reorganization under Chapter 77 of the Federal Bankruptcy Act, many of its long-suffering passengers were quick to express a sense of relief. A typical attitude seemed to be, "Service certainly can't get any worse."

They're wrong; it can. No doubt many commuters recall, that during the New Haven's previous reorganization from 1935 to 1947 service did improve. Then, however, there was an important difference. The road was making a substantial operating profit each year. By eliminating most of the fixed charges, revenues were used to rebuild the road. This year fixed charges are only \$7-million and for the first five months alone the operating deficit has come to almost \$11-million.

In other words, reorganization by itself will not solve the New Haven's problems. Either it must receive massive aid from some governmental body, since private sources are clearly unwilling to provide funds, or the railroad must be pared down

to those few operations that produce a profit. As the Interstate Commerce Commission said recently, "It is the duty of a trustee—a duty this Commission would be most reluctant to thwart—to preserve at all costs that part of the operation that shows some economic vitality and to abandon the rest."

If the New Haven with its unprofitable commuter services and branches is considered essential, then someone must pay for it. If it isn't, then those parts that aren't should be liquidated.

At the moment the New Haven is the only major railroad in such drastic trouble. However, many others in the East are heading toward the same harsh dilemma. Whichever course is followed for the New Haven will almost certainly set the pattern for others. And whichever course is followed, action must be taken quickly. Continuation of present policies of patching together, of making do, and of deferring maintenance to conserve cash will soon lead to service that's decidedly worse. More important, it will be unsafe.



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